ELEMENTS OF INDIAN ECONOMICS

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ELEMENTS OF INDIAN ECONOMICS

being Part II of

INTRODUCTION TO ECONOMICS

BY

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I

RESOURCES AND POPULATION

§1. **Meaning of 'Indian economics'.**—'Indian economics', as generally understood, may be described as a study of Indian economic problems. It presents an analysis of the existing economic situation of India and discusses means and methods of improving it. Every country must in this manner consider its own economic problems. Our object in such a study is not merely knowledge for its own sake. This is legitimate enough, but in addition we desire to find out how best to proceed in order to make the country and its people richer and happier.

§2. **Scope of the chapter.**—In this chapter it is proposed to deal with India's physical environment and natural resources, her population, and the economic aspects of her social and religious institutions.

PHYSICAL ENVIRONMENT AND NATURAL RESOURCES

Economic Geography of India (undivided)

§3. **Area and population.**—The Indian sub-continent has an area of 1.62 million square miles and a population of 389 million according to the census of 1941. With an area of about half that of the United States, India has a population almost three times as large. The length of the country from north to south is about 2,000 miles, and from east to west about 2,200 miles. India has a land frontier of about 4,600 miles, and the length of her coastline is roughly 4,300 miles. She is thus a world in herself, being thirteen times as large as Great Britain and equal to the whole of Europe excepting France and Russia. Her total population is about one-fifth of the world-population.

§4. **Geographical location.**—The natural boundaries of India stand out prominently on her map. On the land side there are the mountain ranges of the Himalayas on the north and the Hindu Kush and Sulaiman mountains on the north-west. The north-eastern frontier is flanked by Burma, which until its separation from India on 1 April 1937 formed part of British India. The only gateways to India by land (i.e., the Khyber and the Bolan passes) are on the north-west frontiers, from Afghanistan and Baluchistan. The Indian coast is surrounded by the two great arms of the Indian Ocean, the Arabian Sea on the west and the Bay of Bengal on the east. India is thus readily approachable from her sea boundaries.

India occupies a highly favourable situation as regards the rest of the world for purposes of international trade, standing as she does at the centre of the eastern hemisphere; she commands trade routes running in all directions, and the sea routes are by far the most important on account of her extensive seaboard (see Map XI).

India, however, suffers from a deficiency of natural harbours capable of accommodating large modern vessels. Karachi, Bombay, Goa and Cochin are the only important ports on the western coast. The east coast is surf-bound and without any natural harbours. The harbour of Madras owes its present position largely to an expensive outlay on its sea-walls. Vizagapatam on the same coast is gradually gaining importance as another artificial harbour, thanks to an ambitious project that is now being carried out by stages. Calcutta on the Bay of Bengal is naturally well-situated, but suffers from bars which form in the Hooghly and make constant dredging operations necessary. Chittagong is in a similar case. We can therefore readily realize why the great bulk of India's foreign trade is confined to four ports, namely, Calcutta, Bombay, Madras and Karachi (see Map II). A vigorous policy aiming at the construction of new harbours and the revival of the old neglected ones is urgently called for in the interests both of her coastal and oceanic trade.

The present shipping position of India is very unsatisfactory, and she has hardly any mercantile marine worth the name to maintain her old traditions of maritime activity. The need for a more forward shipping policy is discussed in Chapter V.

As regards inland communication, the principal ports of India are already connected with the inland trade centres by network of railways and roads. Northern India enjoys good facilities for internal communications owing to navigable rivers like the Indus and the Ganges, and her vast plains lend themselves to the easy construction of roads and railways. Peninsular India is at a disadvantage in this respect owing to the rugged and mountainous nature of the country and its lack of large perennial rivers. The state of rail and road communications in the rural areas of India is backward and needs immediate attention.[1] The post and telegraph are now sufficiently familiar and widespread in India, while the telephone and wireless, which have become such important adjuncts of modern trade and economic activity, are still in a backward state of development, the use of the telephone being confined to the larger towns. On the whole, as a result of these modern facilities for inland communications, the economic isolation of the village is largely a thing of the past.

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[1] See also ch. v, §§ 5, 8.

§5. **Three well-marked divisions of India.**—India falls into the following three well-marked divisions: (i) the Peninsula, (ii) the Indo-Gangetic Plain, and (iii) the Himalayan Range (see Map I).

(i) *The Peninsula.*—This is an elevated plateau (called the Deccan, or the plateau of the south) separated from the Indo-Gangetic Plain by the Vindhya and Satpura ranges. It is flanked by the coast ranges known as the Western and Eastern Ghats. It is thus triangular in shape with Cape Comorin as its apex. This tableland of the peninsula is generally uneven and rocky, with more or less forested hill peaks and ranges, and it tilts like the roof of a house from west to east. The Western Ghats, which form a gigantic and continuous sea-wall, intercept the monsoon clouds, which are compelled to deposit their moisture on the mountain barrier and the narrow strip of land between the Ghats and the sea (known as the Konkan), thus making the inland region peculiarly liable to droughts and famine.

The principal peninsular rivers are the Narmada, the Tapi, the Mahanadi, the Godavari, the Krishna and the Cauvery (see Map VIII). They depend on the rains, and are not perennial like the Himalayan rivers, which receive water from the melting of the mountain snows even in summer. They not only dry up in the hot weather, but many of them cut their way through deep gorges which make navigation impossible and irrigation expensive.

The principal products of the peninsula are millets, rice, oil-seeds, sugarcane, pulses, cotton, tea, coffee and spices. The main kinds of trees are teak, sal, sandalwood and coconut.

(ii) *The Indo-Gangetic Plain.*—This lies between the peninsula and the Himalayas and is traversed by two river systems, the Indus system to the west and the Ganges system to the east. The Indo-Gangetic plain, being composed of rivers and silt, is very fertile and forms the most extensive sheet of level cultivation in the world. Its Himalayan rivers are perennial: their fertile basins have been the seats of the ancient pre-Aryan and Aryan civilizations and are the natural granaries of the country. Some of them (e.g., the Brahmaputra, Ganges and Indus) are navigable, and served as great carriers of commerce in the pre-railway days. They are also the feeders of the important productive irrigation works on which the prosperity of the Punjab (now East and West Punjab), Sind and the United Provinces (now Uttar Pradesh) so largely rests. The main products of the Indo-Gangetic plain are wheat, barley, millets, sugarcane, oil-seeds, rice, cotton, jute, indigo and opium. The vegetation is varied and plentiful—sal in the north, teak in Central India and the mulberry in Bengal. The Indo-Gangetic plain is the most densely populated part of India owing to its fertile alluvial soil and assured rainfall.

(iii) *The Himalayas.*—The Himalayan mountain ranges of the north—the highest in the world—dominate the Indo-Gangetic plain. They account for 1,250 miles out of the total length of over 2,000 miles of great mountain ranges which cut India off from the rest of Asia. Apart from their political significance as an impregnable barrier, the Himalayas exercise a dominating influence on economic conditions by their effects on rain, winds, heat, cold, moisture and vegetation. They intercept the monsoon and supply the plains and rivers with rainwater. The Himalayan watersheds present great possibilities of hydro-electric power. Lastly, they are a rich source of vegetation and nourish valuable forests which in their turn regulate the supply of rainwater.

§6. **Climate and seasons.**—It is impossible to make any general statement about the climate of India because within its boundaries almost any type of climate that is known to the tropics or the temperate zone may be found. But on the whole the Indian climate may be described as semi-tropical. Peninsular India, being situated within the tropics, has a higher mean temperature throughout the year and shows small variations in the different seasons. Northern India, on the other hand, is characterized by extremes of temperature during summer and winter. At Jacobabad the thermometer sometimes rises to 125° in the shade during the hot weather and falls to 25° in the cold weather. Where the seasons are clearly defined in India they are three in number: (i) a cool dry season (winter) when northerly winds prevail; (ii) a wet season, sultry and oppressive with the inflowing south-west monsoon; and (iii) a hot dry season before the beginning of the rains, which usually come suddenly with heavy thunder-storms.

§7. **Rainfall.**—The rainfall like the climate shows striking variations. For example, Cherrapunji in the Assam hills registers a rainfall of 460 inches annually, while Upper Sind gets less than 3 inches. Climatically the Indian peninsula is part of the great monsoon area of Asia and exhibits the monsoonal control in a more perfect form than any other part of this area. The rainfall of India, unlike the rainfall in England, where rain may be expected at any time, has a definite periodicity due to this monsoonal control. The term 'monsoon' technically applies to the reversal of the winds which takes place throughout the monsoon area and which divides the climatic year into two distinct periods, that of the south-west monsoon, and that of the north-east monsoon. During the hot season the land gets hotter than the waters of the Indian Ocean to the south. Moisture-laden winds therefore blow from the Indian Ocean into the low-pressure land area to displace the hot, light air in it in the month of June. By July the *south-west monsoon* is fully established over India, the winds being generally south-west over the Deccan, south over the Ganges delta, and south-east up the Ganges valley. The Indus basin is the last area reached by these winds, and the first from which they retreat, so that here the yearly rainfall is very low. It is heaviest on the Western Ghats (which are first struck by the monsoon) and the Himalayas. In September the force of the monsoon begins rapidly to decline. The south-west monsoon, which reaches every part of India, accounts for nearly 90% of the total rainfall. It strikes India in two currents: (i) the Arabian Sea branch, and (ii) the Bay of Bengal branch. The former crosses the west coast of India, giving rain to the peninsula, the Central Provinces (now Madhya Pradesh) and Rajputana. The Bengal branch gives copious rainfall to Bengal (now East and West Bengal), Assam and Bihar, until it is arrested by the Himalayas. It then turns towards the west and, meeting with the Arabian Sea branch, gives a moderate rainfall to the whole tract from Bengal to the Punjab.

The *north-east monsoon*, which yields about 10% of the total annual rainfall, is really the south-west monsoon in retreat. During the winter, the land becomes cooler than the sea and moisture-bearing winds blow from the land to the sea, thus giving rise to the north-east monsoon. This winter monsoon gives rain to north and south Madras from October to December. Other parts of India, such as Hyderabad State, Berar, and some parts of the Central Provinces, Bombay and the Punjab, also benefit from the north-east monsoon.

The monsoon determines the harvesting seasons in India. One set of crops is sown in June and reaped in autumn, namely rice, cotton and bajra. This is called the season of the *kharif* crops. The second set of crops, namely wheat, barley and linseed, is sown when the monsoon ends about the middle of September, and is reaped between January and March. This is the season of the *rabi* crops. The annual rainfall is a matter of vital importance to the country. Fluctuations in quantity, distribution, and timeliness bring misery or prosperity to the millions of people who are mainly dependent on agriculture. The rainfall enters into every aspect of life in the country, for the prosperity of industry, trade and finance depend on that of agriculture, which in its turn is largely at the mercy of the monsoon, and particularly of the south-west monsoon.

The lack of uniformity in the annual rainfall has given rise to the following classification: (i) Areas of assured rainfall such as Assam, eastern and lower Bengal and the western coast strips; (ii) Areas of precarious rainfall such as Udaipur, Ajmer, and the Bombay Deccan excluding the Western Ghats; and (iii) Areas of drought such as upper Sind, western Rajputana and western Punjab (see Map VI).

§8. **Soils.**—The geological survey of a country includes the consideration of its surface and sub-soil. The soils of India belong to the following geological types:

(i) *The alluvial tracts.*—These are the most extensive and agriculturally the most important. They occupy the greater portion of Sind, Gujarat, Rajputana, the Punjab, the United Provinces, Bengal; and the Godavari, Kistna, and Tanjore districts of Madras. An alluvial strip extends along the eastern and western coasts of the peninsula. The alluvial soils, rich in chemical and organic ingredients, are very fertile, and with a moderate and well-distributed rainfall are capable of growing most of the *kharif* and *rabi* crops.

(ii) *The Deccan trap formation* covers the greater part of the Bombay province, the whole of Berar, the western third of the Central Provinces and the western part of Hyderabad (Deccan). The soils in this area vary greatly in character and fertility. True *Black Cotton soil* occurs within the area of the Deccan trap below the general level of the foot-hills. It is famous as being suitable for the cultivation of cotton and jowar in the valleys of the Tapi and Narmada, in the plains of Gujarat, Kathiawar and Karnatak, and in a few districts of Madras province. It can also grow wheat, linseed and gram, and has a great capacity for absorbing and retaining moisture.

(iii) *The crystalline tract.*—The remaining soils belong to what is known as the crystalline tract, comprising almost the whole of Madras, Mysore, south-eastern Bombay, eastern Hyderabad and two-thirds of the Central Provinces. Though on the whole their fertility is of a low order, certain varieties (e.g., the red or the red-brown loams and clay loams in Mysore and Madras) are very fertile. Crystalline soils of moderate fertility yield rice as their chief crop where canal irrigation is available, and also other valuable crops with the help of tank and well irrigation.

§9. **Mineral production.**—In the opinion of the Industrial Commission (1918), the mineral deposits of India are sufficient to maintain most of the key industries in the country. Up to the early eighties, practically nothing had been done for their development. Subsequent investigations, however, have led to the discovery and opening up of many kinds of mineral deposits which make possible the rise of a number of metallurgical industries in the country. The recent development of the transport system, the war of 1914-18 and the recent war as also the industrial progress of India have stimulated mineral production.

The minerals produced in India include coal, iron, manganese, gold, silver, lead, zinc, petroleum, mica, wolfram, sulphates, salt, saltpetre, building-stones, and cement-making materials (see Map IV). The total value of the minerals produced in the year 1938 was Rs. 34.14 crores. A few words may be said here about the principal minerals.

(i) *Coal.*—With the exception of the United Kingdom, India produces more coal than any other part of the British Empire. The quantity of coal produced in 1938 was about 28.34 million tons valued at Rs. 10.64 crores. Most of the Indian coal comes from Bengal, Bihar, and Orissa (the Gondwana coalfields). Outside these provinces, the most important mines are in the Central Provinces, Hyderabad State, Central India, the Punjab, Rajputana, Assam and Baluchistan. Indian coal is thus very unevenly distributed, the deficiency being specially marked in the case of the peninsula. Bombay can draw hydro-electric power from the Western Ghats, but the Madras province is greatly handicapped in its industrial development (e.g., in the exploitation of its iron ore deposits) by lack of coal.

Indian coal is generally poorer in quality than foreign coal. Only the Bengal coal can compare with foreign coal in the production of good metallurgical coke. On the recommendation of the Indian Coal Committee, a Coal Grading Board was established in 1926 in order to improve the quality of Indian coal supplied in the market. It is also necessary to devise measures for the conservation of India's resources of good quality coal. Accordingly the Coal Mines Stowing Board has been set up under the Coal Mines Safety (Stowing) Act of 1939, which aims at ensuring the safety of the workers and at preventing wastage or uneconomic extraction of coal.

The coal industry in India owes its origin to the construction of railways in the country, though its subsequent progress has been stimulated by the increased demand from the expanding iron and steel and other industries.

(ii) *Iron.*—By far the most important of the iron deposits are those that occur in Singhbhum and Keonihar, Bonai and Mayurbhunj States of Bihar and Orissa, where recent discoveries include what appears to be a range of iron ore running almost continuously for forty miles. Other sources are Bengal, the Central Provinces, Madras and Mysore State. The Barakar Iron Works, started in 1874 (which were later transformed into the Bengal Iron Company Ltd.) led to the introduction of the modern iron industry into India. The remarkable development of the Tata Iron and Steel Company, inaugurated at Sakchi (Jamshedpur) in 1911, has given a great stimulus to the production of iron ore, of which the total production amounted to 2.7 million tons in 1938.

(iii) *Manganese.*—This is a very valuable industrial mineral and is mainly required for the manufacture of steel. It is also used in the heavy chemical, electrical and glass industries. India at one time (1907) displaced Russia as the first among the world's producers of this metal, but later she gave way to Russia. The record output of 1.1 million tons was reached in 1927, but owing to the economic depression of recent years, the output fell to only 218,307 tons in 1933 and the industry is still in a stagnant condition though there has been a partial recovery, the output having increased to 967,929 tons in 1938. The principal manganese-producing areas are the Central Provinces, Madras, Bombay and Mysore.

(iv) *Gold.*—India contributes only about 3% of the world's production of gold, the great bulk of which is mined in the

Kolar field in eastern Mysore. India produced 321,138 ounces of gold, valued at Rs. 3.05 crores, in 1938.

(v) *Petroleum.*—There are two distinct oil-bearing areas on either side of the Himalayan arc; one on the east, and by far the most important, includes Assam and contributes 85% of the output; the other on the west includes the Punjab and Baluchistan. With the separation of Burma India's petroleum resources have become insignificant compared to the world's. Her total output in 1938 was about 87 million gallons valued at Rs. 1.65 crores, which accounts for only one-tenth of one per cent of world production. Her contribution to the world's production of petroleum is negligible, being less than 1%. The internal consumption of petroleum and petrol has increased enormously in recent years, and large quantities are still imported from abroad in spite of the extension of home supplies. The separation of Burma from India in 1937 has greatly increased our dependence on foreign countries in this respect.

(vi) *Mica.*—This mineral is principally used in the electrical industry as an insulating medium. India is the leading producer of mica, with an output of more than three-fifths of the world's total.

(vii) *Saltpetre.*—Saltpetre is in considerable demand for industrial purposes, for the manufacture of glass, for the preservation of food and for manurial purposes. It is produced mainly in Bihar, the United Provinces and the Punjab. Nearly the whole of the output is exported, a small part being retained in the country for use as a fertilizer, especially in the Assam tea gardens. There was a time when India possessed a practical monopoly of the world's supply of nitrates required for the manufacture of explosives and chemical manure. Partly owing to the imposition of a heavy export duty and partly owing to other causes, Indian production declined. The competition of Chile nitrates and French potash salts in foreign markets has adversely affected Indian exports of saltpetre.

(viii) *Salt.*—About three-fourths of the salt consumed in the country is produced internally. The total output of salt produced in India was 1.54 million tons in 1938, the imports in the year 1939-40 being 314,000 tons, Aden being the chief source of supply. About 60% of the Indian salt is obtained by evaporation of sea water on the coasts of Bombay and Madras. A second source is the rock salt obtained from the Salt Range and the Kohat mines in the Punjab. The other two sources are brine salt from the Sambhar lake in Rajputana and salt brine condensed on the border of the lesser Rann of Cutch. Foreign salt is largely imported for the Bengal market. In 1929-30 the Tariff Board, which considered the question of making the country self-sufficient in respect of salt, expressed the view that the whole demand of the Bengal market (which is for fine white salt) could be met by India and Aden. The salt industry received protection in India by the imposition in 1931 of an additional import duty of 4½ annas per maund on foreign salt, reduced to 1½ annas in 1936. The protection was withdrawn in April 1938 in the interest of the consumer of Bengal.

(ix) *Cement-making materials.*—Chalk, limestone and clay are found extensively in India in the Bundi State (Rajputana) and also at Katni. Other areas are Porbandar in Kathiawar and the vicinity of Lucknow and Cawnpore in the United Provinces. The cement industry has a promising future.

(x) *Other minerals.*—Other minerals of subordinate importance are lead, tin, copper, zinc, silver, bauxite (aluminium), jade, chromite, potash, amber, diamonds, rubies and sulphur.

§10. **Vegetable resources.**—India grows a large variety of vegetable products belonging to the sub-tropical and temperate zones, as the following enumeration will show:

(i) *Food-grains.*—*Rice*, in Bengal, Bihar, Orissa, and to some extent in Madras and Bombay; *wheat*, in the north-west parts of India; *millets*, such as jowar and bajra, in Bombay and Madras; *barley*, in the United Provinces and Bihar; *ragi*, in Madras, the United Provinces and Bombay; *maize*, in Bihar, Orissa, the United Provinces, and the Punjab; *gram*, in the Punjab, the United Provinces, Bihar, Orissa and the Central Provinces.

(ii) *Herbs.*—*Condiments* and *spices*, in Madras, Bombay and Bengal; *sugarcane*, all over India, especially in the United Provinces; *coffee*, in Madras and Coorg; *tea*, in Assam and Bengal.

(iii) *Seeds.*—Oil-seeds such as *linseed*, *sesamum*, *rape* and *mustard*, *ground-nut*, *castor* in Madras, the United Provinces, the Central Provinces and Bombay.

(iv) *Fibres.*—Cotton, in Bombay, Berar, the Punjab and Madras; *jute*, in Bengal.

(v) *Miscellaneous.*—*Opium*, in the United Provinces; *tobacco*, in Bengal, Bihar, Bombay and Madras; *fodder crops*, in the Punjab and the United Provinces; *cinchona*, in southern

India; *india-rubber*, in Assam and the Khasi Hills; and *forest products*.[1]

§11. **Forests.**—Among the most valuable natural resources of India must be reckoned her magnificent forests, whose character is largely governed by rainfall and elevation. Where the rainfall is heavy, evergreen forests of palm, ferns, bamboos and india-rubber trees are found. Under less copious rainfall, deciduous forests appear containing teak, sal, etc. Of the whole area of British India, more than 11 per cent is under the control of the Forest Department. Assam is the most thickly forested province, followed by the Central Provinces and Berar, Bombay, Madras and Bengal at a considerable distance.

In the economy of man and of nature, forests are of direct and indirect value. The direct utility of forests is chiefly due to their produce, such as timber and firewood and the raw materials they afford various industries, and the grazing for cattle they provide. They also offer employment to a large number of persons working in and near them and to others engaged in working up the raw products. Forest produce is divided into two main heads: (i) Major produce, i.e., timber and firewood; and (ii) Minor produce such as lac, tanning materials, essential oils, turpentine and resin. Forest research has proved the utility of bamboo for the manufacture of paper pulp, and the Government has since 1925 granted protection to the Indian bamboo paper pulp industry on the recommendation of the Tariff Board. The indirect utility of forests is also not negligible. They make the climate more equable, prevent the soil from being washed away by heavy rains, help to regulate the water supply by rendering the flow of water in rivers more continuous, increase the fertility of the soil, afford shelter to cattle and useful birds, and produce a healthy aesthetic influence upon the people. The forests made a valuable contribution to the war production of India.

The conservation of forests is therefore of the utmost importance to every country. Nature's heritage must be protected against the rapacity of mankind. The process of reckless destruction of forests had gone on for centuries in India before the advent of British rule. In the early years of British rule, this destruction became intensified owing to increase of population, extension of cultivation, multiplication of herds of cattle, and increasing demand for timber and firewood for railways. It was during Lord Dalhousie's regime that the Government realized the necessity of adopting a policy of forest conservation. The first organized steps were taken about the year 1855. In 1864 a Forest Department under an Inspector-General of Forests was established in the major provinces. Since then the Forest Department has grown and now controls, as mentioned above, more than one-fifth of the total area of British India. Indian forests are classified as (i) Reserved, (ii) Protected, and (iii) Unclassed State Forests in descending order as regards the control exercised by the Government over the rights of individual and public use. The object of forest administration is to eliminate the danger of over-working the forests and to improve their yielding capacity. The Forest Research Institute, established in 1906 at Dehra Dun, has been doing useful research work. The Agricultural Commission (1928) stressed the importance of increasing the utility of forests to the agriculturist, and at the same time of bringing him to take an enlightened view of forest administration.

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[1] For further particulars regarding the various crops, see ch. iii, §3.

§12. **Animal resources.**—The importance of animal life to an agricultural country like India cannot be exaggerated. The variety of Indian conditions has naturally developed a great variety of animal life. The most important animals are: (i) Cows and buffaloes mainly prized for milk; (ii) Bullocks which play an important part in the agricultural economy of India both as draught animals and on the field; (iii) Goats and sheep which, apart from yielding meat and wool, supply together with cattle practically all the manure used by the Indian cultivator. Other animals are donkeys, used as pack-animals everywhere; camels used for transport across deserts (e.g., Sind) and generally in northern India; and fish, which are of immense importance as articles of diet in Bengal, Assam and the coast strips of the peninsula. The extensive forests of India shelter a large variety of wild animals, reptiles and birds.

§13. **Sources of power.**—The principal sources of power available in India are coal, wood, fuel, oil and alcohol, wind and water. We have already referred to the uneven distribution of coal and its marked deficiency in the peninsula. The situation as regards the other sources of power, except water power, is also not very favourable. At present water is the most promising source of power in India. The Gokak mills situated near the Gokak Falls in the southern Maratha country (Bombay) were the pioneers in the use of hydro-electric power. In recent times considerable attention has been paid to large hydro-electric power schemes, e.g., on the Cauvery river at Sivasamudram, for supplying power to the Kolar gold fields (1903), on the river Jhelum in Kashmir, and at the Tata hydro-electric works in the Western Ghats in the Bombay Presidency (1915). The three Tata hydro-electric schemes mark a big step forward in the industrial development of India. These schemes, which have a combined normal capacity of 246,000 horse-power, provide electrical energy for the great industrial city of Bombay, Bombay suburbs, Thana, Kalyan and greater Poona, thus enabling them to overcome the handicap imposed by the absence of coal in their vicinity. Another important hydro-electric venture is the Mandi scheme in the Punjab, which area also suffers from a deficiency of coal. This scheme, which came into operation in 1933, when completed is expected to supply power to a very large number of industrial centres, including distant places like Delhi. In Madras, the Pykara hydro-electric scheme, started in 1929, is now in operation. The Mettur hydro-electric scheme which is combined with the famous Mettur irrigation project came into operation in 1933. The Madras Government in 1938 sanctioned the Papanasam hydro-electric scheme. Other interesting projects are the Ganges Canal hydro-electric grid project, the new power-stations at the Shimsa and Jog Falls in Mysore State, and several hydro-electric schemes undertaken by Hyderabad State. In accordance with the recommendations of the Industrial Commission, the Government of India undertook in 1918 a comprehensive hydro-electric survey of India which has revealed various interesting possibilities, especially in connexion with the Himalayan watersheds and rivers.

The foregoing survey reveals the rich and varied character of India's natural resources. It is a commonplace remark that while nature has showered her bounties on the country with a liberal hand, man in India has failed to profit adequately by them, so that the contrast between the bounties of nature and the poverty of man is very striking.

POPULATION

§14. **Population and density by Provinces and States.**—Table I below gives the total population and Table II density per square mile in the various British Indian Provinces and Indian States according to the census of 1941 and 1931 respectively:

Population (1941 *Census*)

—	Population 1941 (million)	Increase or decrease per cent since 1931	Density per square mile (1941)
India	**388.8**	**+15.0**	**245**
Provinces	**295.8**	**+15.2**	**273**
Madras	49.3	+11.6	347
Bombay	20.9	+15.9	370
Bengal (East and West)	60.3	+20.3	778
United Provinces	55.0	+13.6	518
Punjab (East and West)	28.4	+20.4	287
Bihar	36.3	+12.3	524
Central Provinces and Berar	16.8	+ 9.8	168
Assam	10.2	+18.2	185
N.-W.F. Province	3.0	+25.2	225
Orissa	8.7	+ 8.8	263
Sind	4.5	+16.7	98
Ajmer-Merwara	0.6	+15.1	215
Andaman and Nicobar Islands	0.03	+15.5	11
Baluchistan	0.5	+ 8.2	9
Coorg	0.2	+ 3.3	106
Delhi	0.9	+44.1	1,602
States and Agencies	**93.0**	**+14.3**	**185**

§15. **Factors determining density of population.**—The average density of population in India is 195 persons per square mile. The density varies from tract to tract from 6.5 (mean density) in Baluchistan to 4,000 in the rural parts of the south-west coast (see Map V). In most parts of India the highest density of population would require about 40 inches of annual rainfall. In a few cases it has been possible to remedy deficiency in rainfall by irrigation. But taking the country as a whole irrigation plays a negligible part in determining density. A far more important factor is configuration. Where the surface of the soil is level, every inch of land may be cultivated, so that a very dense population can be maintained. If the surface is uneven, with hills and valleys, cultivation is difficult and population will be sparse. The nature of the soil is obviously another important factor. Tracts most favourably situated in respect of rainfall, configuration and soil naturally develop the highest density, as in the case of Bengal and the United Provinces with their vast stretches of level and rich soil and adequate rainfall. Sometimes a particularly unfavourable climate cancels all other advantages and we get low density as in Assam.

§16. **Occupational distribution.**—About 70% of the people of India obtain their livelihood from agriculture and allied occupations. Industries support about 10% of the population, but the bulk of these are engaged in *unorganized industries* connected with the supply of personal and household necessities and the simple implements of work. *Organized industries* occupy only about 1.5% of the people. Trade and transport absorb about 8%; and administration and protection of the country about 1.5%. These figures are sufficient to illustrate the usual statement that agriculture forms almost the sole occupation of the people of India.

§17. **Towns and villages.**—The mass of the Indian people being agriculturists, it is natural that we should find a great predominance of villages over towns. A bare 11% of the Indian population are town-dwellers (a town being taken to mean a place inhabited by not less than 5,000 persons, or possessing some form of municipal self-government). There are about 2,600 towns as compared to nearly seven lakhs of villages. In England the proportion of the town-dwelling to the total population is 80%; in the United States, 56%; in France, 49%; and in Germany, 46%.

The present excessively uneven distribution of the people between town and country, with only a negligible proportion living in towns, is an index of general backwardness. Civilization and progress have always originated in towns and radiated from them into the countryside. A greater development of modern industries would bring about an increase of the town population, and the country would progress more rapidly not only in an economic sense but also culturally.

§18. **Sex-distribution.**—Another characteristic of the Indian population is that males outnumber females, there being 935 females for every 1,000 males (according to the census of 1941) in spite of the fact that females are constitutionally stronger. The explanation is that in India the mortality among females is higher, and this is usually attributed to early marriage and excessive child-bearing combined with unskilful midwifery.

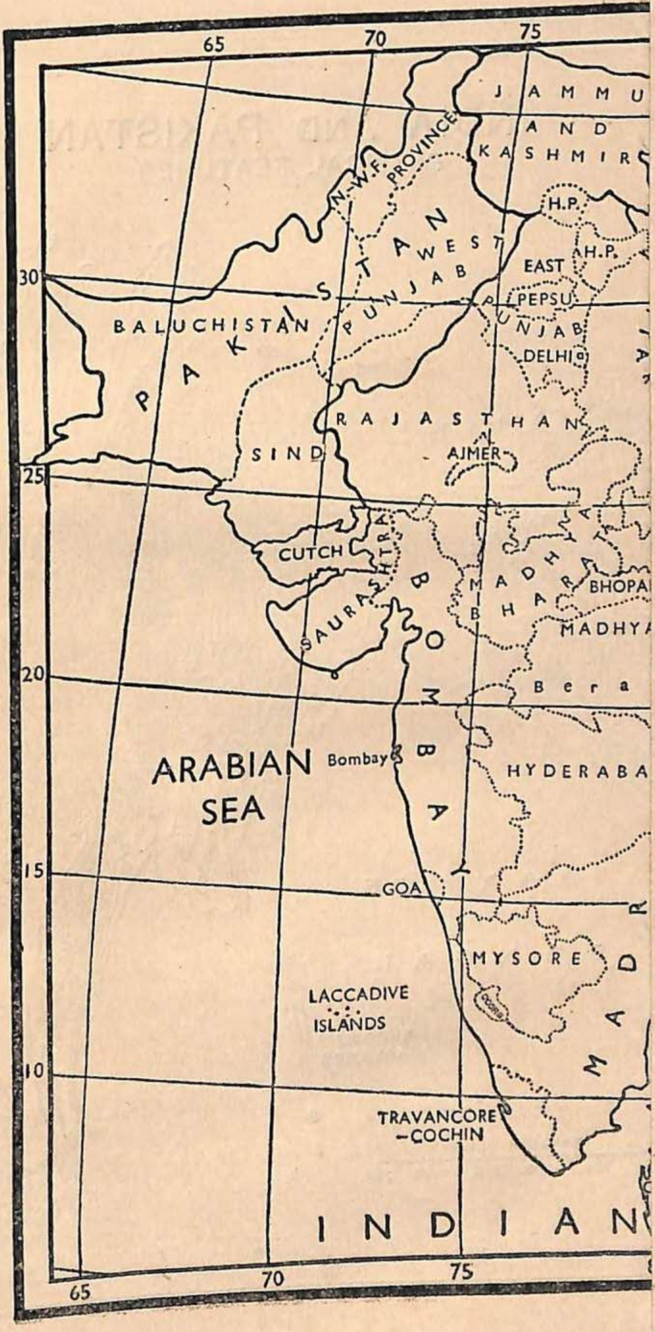
§19. **Productive or working population.**—The commonly accepted limits for the productive or the working population are between the ages of 15 and 60 in Europe. In India, as old age and incapacity for work appear earlier, the limits are 15 to 40. On this basis the *working* population in India is 40% of the total, as against 60% in England and 53% in France.

§20. **Birth-rate and death-rate.**—The Indian birth-rate and death-rate are among the highest in the world (about 35 per thousand and 25 per thousand respectively). A high and unchecked birth-rate is usually associated with a high death-rate. In European countries generally there is a striking tendency for both birth-rate and death-rate to decline. The birth-rate is declining because people marry late and regulate the size of their families. The children, being fewer, can be better looked after and therefore a large proportion grow up to manhood. In India the death-rate in general is very high owing to the poverty and the low vitality of the people, and it is particularly high among infants and females. Early marriages are an important contributing factor because they sap the vitality of the mother, and the child is consequently weak and liable easily to succumb to an ailment. Insanitary habits, ignorance of health laws, and unskilful midwifery make matters worse.

§21. **Population problem in India.**—Between 1931 and 1941 the Indian population increased from about 338 to about 389 millions, i.e., by about 15%. The increase of nearly 50 millions in ten years, although not great in proportion to the total population, is none the less stupendous in itself. Can India really support a growth of population on this scale? The population is not far behind that of China, so that India now stands second in the list of all the countries in the world in the number of her inhabitants.

In Part I, Chapter VI, §6, we have explained the term 'over-population' as population in excess of the optimum, although nobody can say exactly what the optimum would be under a given set of circumstances. If we cannot say what figure corresponds exactly to the optimum population, we also cannot pronounce a definite opinion as to whether the actual size of the population in India is or is not in excess of the optimum. But though an exact statement is impossible we can make a reasonably sound guess on broad general grounds.

If in any country (i) there are no considerable preventive checks to the growth of population, (ii) if further, there are no prospects of any sudden and extraordinary economic development, and lastly (iii) if the positive checks are unmistakably in operation (i.e., there is a very heavy death-rate, particularly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H.P.
EAST PUNJAB
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MADHYA BHARAT
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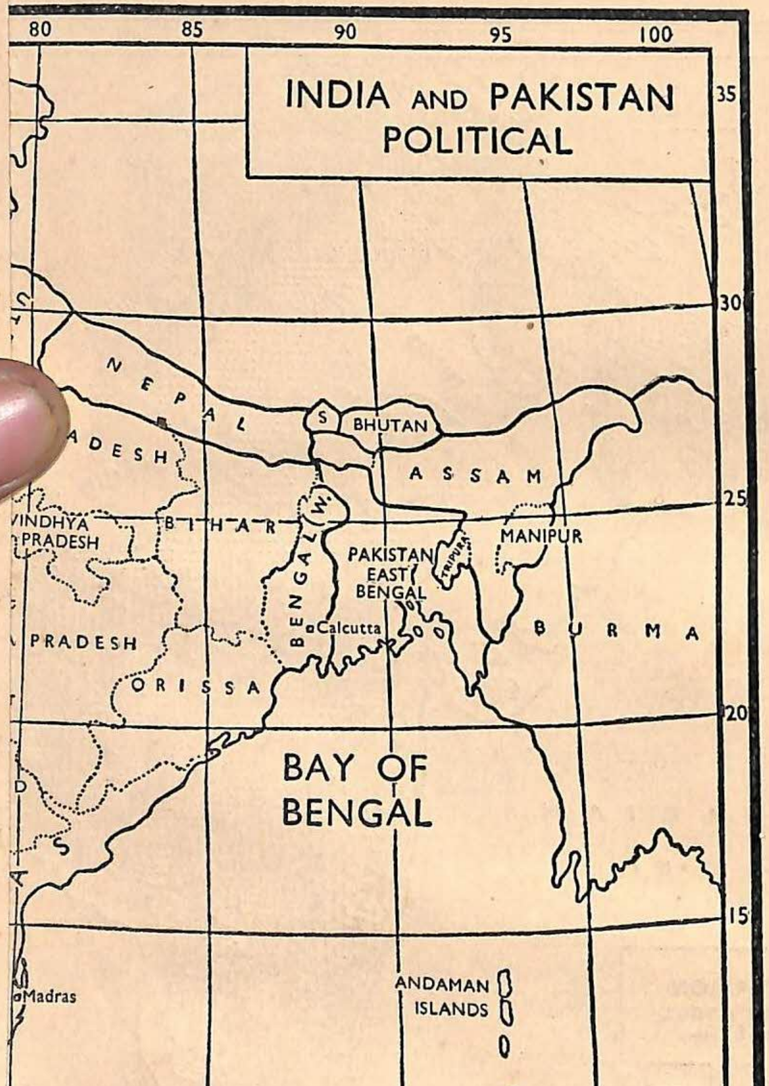
INDIA AND PAKISTAN
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Calcutta
PRADESH
BURMA
ORISSA
BAY OF
BENGAL
ANDAMAN
ISLANDS
Madras
NICOBAR
ISLANDS
EYLON
OCEAN
30
85
90
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MAP II

infantile death-rate), we may justifiably conclude that the country in question is suffering from over-population. We shall consider the position in India along these lines.

That there are no important preventive checks in operation in this country can be easily proved. In India practically everybody marries, and marries as early as possible. Religion encourages marriage. To avoid social obloquy most girls must marry before puberty. Amongst Muslims also early marriage is equally common. The joint-family system encourages early marriage because it is not necessary that everybody who marries should be able to earn his livelihood: wife and husband can be supported by the other members of the joint family. The very poverty of the masses makes early marriage necessary; for a wife is necessary as a household drudge and often helps the husband in work in the fields and other outdoor occupations. Children may come, but the standard of life is so low that it does not cost much to rear them. Many die for want of care and proper nourishment, and those that survive are compelled to work and pay their way as soon as practicable. In the long run it is no doubt wasteful to society thus to force children to face life without any particular training. But the poor man cannot afford to take such long views. He is guided by what is immediately advantageous, however slight the advantage derived may be. The upshot of the whole matter is that the check to the growth of population due to abstention from marriage or its postponement is practically non-existent in India. It is therefore not surprising that the Indian birth-rate is one of the highest in the world.

As regards the possibilities of economic development, much no doubt can be done in the way of improvement of agriculture and industrialization. But even a superficial examination of our problems of agriculture will reveal the fact that there are many serious difficulties and obstacles to contend against, and progress must be slow. Similarly in the field of industry we have to reckon with the fact that other nations have gone far ahead of us, and it is a task of no mean difficulty to compete successfully with them. Even supposing we can shut out foreign goods by tariff barriers, our progress is not likely to be very rapid because there are other impediments besides foreign competition; our own deficiencies regarding labour and capital will take a long time to overcome. Even the most optimistic persons must agree that he country cannot hope for any such phenomenal increase of wealth as was witnessed in England as a result of the Industrial Revolution and as would suffice comfortably to absorb an unrestricted increase of population.

As regards positive checks, frequent visitations of epidemics like plague and influenza carry off large numbers of people from time to time. Even otherwise the mortality rate is one of the highest in the world and is particularly heavy among infants.[1]

All the indications of a state of over-population are thus seen to be present in India, and taking into account the present conditions and the possibilities of economic advance in the near future we may say that India would be a better country for its people to live in, if they bred at a considerably slower rate than now.

A definite movement towards artificial birth-control is taking place in the country, and enlightened public opinion is making the demand that the Government should help the movement by propaganda and by such measures as the establishment of birth-control clinics where information and advice regarding methods of birth-control can be given to the people.

Side by side with deliberate restriction of numbers, it is of the highest importance that every effort should be directed towards agricultural and industrial progress and the raising of the standard of living. Similarly the indirect bearing on the population question of public health measures and the spread of education and culture to which reference was made in Part I, Chapter VI, should not be forgotten in considering the problem of population in India.

ECONOMIC ASPECTS OF THE SOCIAL AND RELIGIOUS INSTITUTIONS

§22. **The caste system.**—The various aspects of Indian economic life have received their peculiar shape and mould from the characteristic social institutions of the people.

One of these institutions is the caste system. At one time perhaps the caste system could be defended as making for economic strength and efficiency, being based on the principle of division of labour. Also it worked well when there were only a few distinct occupations, proficiency in which mainly depended upon manual dexterity, which could most conveniently be handed down from father to son. Now with the appearance of numerous occupations and the advent of machinery, mere manual dexterity has become comparatively less important, and the caste system is more a hindrance than a help. It tends to prevent a man from following his natural bent in selecting his profession, and this is undesirable from the individual as well as the social point of view. Some castes are regarded as lower and some as higher. The occupations of the former tend to be looked down upon and this fosters an attitude of mind opposed to the principles that all honest labour is equally honourable, and that inferiority and superiority are not questions of birth but of innate ability which is not the monopoly of any particular caste. The caste system in its present form is a source of social and political weakness, and the sooner it disappears the better it will be for the nation. Western education and culture should weaken the caste system. But there are other powerful influences—such as the scramble for political power ensuing from every forward step in political reform—which seem at present to be emphasizing the caste differences.

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[1] See § 20 above.

§23. **The joint-family system.**—The joint-family system is another characteristic of Indian society. The joint family has of course some good points. Every member of the family is looked after. Widows and orphans find a natural shelter in the family. In these circumstances the State is required to do less than in the West for those who are helpless. When a large number of people live together as they do in a joint family, there is a saving in household expenses. In many ways the joint family at its best fosters the virtues of self-discipline, sacrifice, obedience and reverence. But the great objection under modern conditions to the joint family is that it stifles individual initiative and encourages drones lacking in the sense of self-respect and responsibility. At present, owing to the fact that individuals have very often to leave the family fold in search of a livelihood and owing to the growing influence of Western individualism, the joint-family system is gradually breaking up.

§24. **Indian laws of inheritance and succession.**—The Indian laws regulating inheritance and succession present a great contrast to the English law. In India landed property is distributed among a number of heirs. In England, owing to the system of primogeniture, land is concentrated in the hands of a few people. A wide diffusion of property and wealth appears to be more in consonance with ideas of social equity than its concentration.

But in India the principle of equal distribution of wealth is seen to lead to such evils as the excessive subdivision and fragmentation of land. It is also commonly regarded as discouraging large-scale enterprise by preventing the accumulation of much capital in the hands of a few persons.

§25. **Religion and economics in India.**—It is often suggested that our present economic backwardness is due to our other-worldly religion and the fatalistic outlook which it engenders. We are so much engrossed with the salvation of our soul after death that we neglect to make the best of our life on this planet. It can, however, be easily proved that Christianity also is other-wordly in the sense that Hinduism and Islam are other-wordly and yet it has not prevented the progress of the Christian nations in the arts of material civilization. We must further remember that in the past the Indian people have figured in history as great empire-builders, conquerors and colonizers. Their achievements in the sphere of the positive sciences like mathematics and astronomy have also been far from negligible, and the products of the Indian craftsman had at one time world-wide fame and circulation. All this would not have been possible if it had been true that Indian spirituality had paralysed economic and other secular activity. Turning to present-day conditions, some of the communities (like the Marwaris, Jains, Bhatias, Khojas, Memons and Bohras), which have taken the most active part in the new commercial and industrial life of the country and shown the greatest enterprise, are among the most orthodox and the least touched by modern scepticism and free-thinking.

The truth of the matter is that the economic motive is quite as powerful in India as in the West. The spirit of fatalistic resignation, which is holding it in check is due to historical and political causes and has very little to do with the teachings of religion. People necessarily become fatalistic when political and other conditions are such that nobody can be certain of reaping the fruits of his labour. When conditions become more settled and satisfactory the natural impulse of man to create and enjoy the good things of life asserts itself. If religion seems to discourage this impulse it is itself changed by the process of re-interpretation—by reading new meanings into old texts. This is what has happened in Europe and this is also what is happening in India. Are not many thoughtful Hindus discovering that some of the characteristic doctrines of Hinduism, like the *karma* doctrine, do not inculcate renunciation but, on the contrary, favour energetic endeavour? Are not some Muslims similarly discovering that the *Koran* does not really forbid the taking of reasonable interest on money lent ?

In short it is wrong to single out religion as a special influence in India making for apathy and indifference to material progress. Other influences such as political anarchy have played a far more important part in creating such an attitude. Calamities like famines, and diseases like malaria and hook-worm, which lead to low vitality, must also be held largely responsible for the chronic apathy and pessimism of the people. Now that peace has been established and we are learning more and more how to control disasters like famines and to check the ravages of disease, a more hopeful outlook on life is becoming possible.

SUMMARY

By 'Indian economics' we mean the study of present economic conditions. If the study is to be intelligent, it must of course invoke the aid of general principles of economics.

ECONOMIC GEOGRAPHY

India is a *world in itself* with an area of 1.57 million square miles and having a population of 389 millions. She has extensive land frontiers and a long coastline. Her natural boundaries—the mountain ranges in the north and the two great arms of the Indian ocean in the south—stand out prominently.

India enjoys a *favourable geographical location* as regards the rest of the world and commands trade routes in all directions. She suffers, however, from a deficiency of natural harbours. A vigorous policy of harbour development, including the revival of old neglected ports, is desirable.

The *shipping position* in India is very unsatisfactory and there is a great need for building up an Indian mercantile marine.

Inland means of transport are in a better condition. A network of railways and roads connects the ports with the inland trade centres, and there are navigable rivers like the Indus and Ganges in Northern India. Rural transport is however, in a backward condition, and more feeder roads and railways are needed. Means of communication like the post and telegraph are fairly widespread. The telephone is restricted to large towns, and wireless has only just begun. With the spread of improved means of transport and communication the economic isolation of the rural areas is disappearing and the whole country is tending to become one economic unit, which in its turn is linked with the rest of the world.

India falls into *three well-marked divisions* :

(i) *The peninsula*, lying south of the Vindhyas and flanked by the coast ranges known as the Western and Eastern Ghats, is triangular in shape with Cape Comorin as its apex. The peninsula is not so well served by rivers as

Northern India. Its principal products are millets, rice, oil-seeds, cotton, sugarcane, tea, coffee and spices.

(ii) *The Indo-Gangetic plain* lying between the peninsula and the Himalayas, being traversed by the Indus and Ganges river systems is very fertile and supports a dense population. Its rivers are perennial and navigable. The Gangetic plain produces wheat, barley, millets, sugarcane, oil-seeds, jute, indigo and opium.

(iii) *The Himalayan mountain range* of the north, which dominates the Indo-Gangetic plain, constitutes an impregnable barrier and exercises a decisive influence on economic conditions in respect of climate, rainfall, vegetation and forest resources.

The Indian climate is semi-tropical. The variations in temperature are moderate in the peninsula. In the north however there are extremes of heat and cold. There are three seasons in India: a cool dry season (winter), a wet sultry season and a hot dry season.

The rainfall shows striking variations from one part of the country to another and is seasonal in its character. India has two monsoons, the south-west monsoon, which gives 90% of the rainfall to the country, and the north-east monsoon, which accounts for the remaining 10%. The former, which lasts from June to September, is of greater importance to the Western Ghats area and Northern India; while the latter, which visits India from October to December, gives a good deal of rain to north and south Madras. Rainfall vitally affects economic life in India. Certain regions like the Western Ghats and Assam are assured of plentiful rain. Other parts like the Bombay Deccan and Udaipur are less fortunate, while still others like Upper Sind are almost rainless.

Indian soils fall into three classes: (i) The alluvial tracts, as in the Indo-Gangetic plain, are very fertile and grow most of the crops; (ii) The Deccan trap, as in the Bombay Presidency and parts of the Central Provinces and Berar, includes the black cotton soil suitable for cotton and jowar; and (iii) Crystalline soils, as in Madras and Mysore, are comparatively inferior, though certain varieties are very fertile.

India's mineral wealth covers a wide range, including coal, iron, manganese, gold, petroleum, saltpetre and salt. The mineral deposits are not yet fully exploited. They are sufficient to maintain most of the key industries and proved to be valuable during the last war.

Coal, iron ore and oil are perhaps the most important minerals in modern industrial life. *Indian coal* is unevenly distributed, the deficiency being specially marked in the peninsula. There are rich *iron ore* deposits in Bihar and Orissa, and the iron and steel industry has a bright future before it. The principal *oilfields* lie in Assam. The heavy increase in internal demand necessitates large imports of petroleum and petrol, especially from Burma.

Another important mineral is *salt*, which has four main sources, sea salt, rock salt, brine salt and salt brine. Three-fourths of the salt consumed is produced in the country itself. In respect of salt, India may be expected in the future to become largely self-sufficing owing to the protection given to the Indian industry.

India's *vegetable resources* are rich and varied. She produces food grains (rice, wheat, millets, etc.), spices, sugarcane, tea, coffee, oil-seeds, cotton, jute, India-rubber, etc.

The forest resources are a great national asset, the forest area accounting for one-fifth of the total area. The main forest products are timber, firewood, bamboos, lac and tanning materials. Since 1864 the Forest Department has been made responsible for the conservation of forests, which fall into three classes (i) Reserved, (ii) Protected, and (iii) Unclassed. The Forest Research Institute at Dehra Dun is doing useful research work.

Animals, especially domestic animals like cows, buffaloes, bullocks, goats and sheep, play a valuable part in the economy of an agricultural country like India.

Although several *sources of power*, such as coal, wood fuel, oil and alcohol, exist, the greatest promise is held out by *hydro-electric power* schemes, several of which are already in operation in the Western Ghats, Mysore, the Punjab and Madras.

The natural resources of India are considerable. Much, however, remains to be done before they can be said to have been properly developed.

POPULATION

The total population of India is 388.8 (1941). The *average density* of India is 195 persons per square mile. It is more in some provinces, less in others, depending on rainfall, irrigation, configuration, soil, etc.

About 70% of the people are directly or indirectly occupied in *agricultural pursuits* and only about 10% in industry. *Organized industries* occupy only 1.5%. As a corollary of this we find that only 11% of the people live in *towns* and the rest in *rural areas*. Such a distribution of population indicates economic backwardness and is unfavourable to general progress.

There are more males than females because of the greater mortality among females. *The productive or working part* of the population may be put at 40%.

India has a very *high birth-rate* with its usual concomitant of a very *high death-rate*. The death-rate is particularly high among women of reproductive age and among children.

Between 1931 *and* 1941 *the population increased by nearly* 50 *millions.*

No preventive checks being in operation, and economic development in proportion to an unchecked growth of population being unlikely, deliberate restriction of numbers would be desirable. Strenuous efforts to expedite all round economic progress, to raise the standard of public health and of education are equally necessary. In an indirect manner they are calculated to facilitate the solution of the problem of over-population.

SOCIAL AND RELIGIOUS INSTITUTIONS

The caste system is a prominent feature of Indian society. It may have been useful at one time, but it is now an anachronism and a source of weakness.

A similar statement can be made about the *joint-family system*, which runs contrary to the spirit of modern times and which on the whole serves to weaken the incentive for economic effort.

The Indian laws governing inheritance and succession make for a wide diffusion of wealth. On the other hand, they lead to excessive subdivision of land and prevent large accumulations of capital.

Indian spirituality and other-worldiness are often cited as causes of India's economic backwardness. This is however not altogether a correct view. If of contract and free play of competition; (*b*) Close interdependence between the different parts of the industrial world, made possible by highly developed transport and communication; (*c*) Importance of manufacturers and commerce and the predominance of the urban over the agricultural population; (*d*) Advanced division of labour facilitated by the growing extent of the market and use of machinery; (*e*) Large-scale industry requiring huge capital outlay and the concentration of labour in large factories and industrial towns; (*f*) Prevalence of money economy as opposed to barter; (*g*) Development of credit and banking and the absence of usury.

The above is not a hard and fast classification, and most of the countries in the first category are showing a tendency to pass into the second one, and in some of them, as in India, the change is already plainly visible. India is now in a state of economic transition and exhibits in varying degrees characteristics appertaining to both types of countries. The trend of development is, however, towards a growing predominance of the second type.

§3. **The old economic organization in India : the village.**— India in the past was mainly a land of villages and she still is today. The isolated and self-sufficient village was the unit of the old Indian economy. The typical Indian village is an aggregate of cultivated holdings with or without some waste area attached, and usually it has a central site where the dwelling-houses are congregated, with the lands of the village spreading out in a series of concentric circles. The village often has a grove, and some kind of public office where the village officers keep their books and conduct their business.

There are two main types of village constitution in India : the ryotwari or severalty village, and the joint or landlord village. In the former, land is held separately by each cultivator, who pays his land revenue direct to the Government (as, e.g., in Bombay, Madras and Berar). In the second type, which prevails in the United Provinces and the Punjab, the land in the village may be owned by a single individual landlord or a body of co-sharers who are *jointly* responsible for the payment of land revenue.[1]

Whatever the type, each village was in the past an entirely self-sufficing unit containing within its bounds all the labour, capital and skill necessary for its agricultural and industrial activities. The inhabitants of the village fall into three groups:

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[1] See also ch. iii, §32.

(i) *The agriculturists*—who may be divided into the land-owning and the tenant classes—form the bulk of the village population. Land holdings are usually small and are cultivated by the farmers with the help of members of their families. They undertake the risks, provide their own capital or borrow it from the village money-lender, and occasionally exchange their produce in the nearest market for salt and other small necessaries and luxuries which are not available in the village itself.

(ii) *The village officers.*—Each village has its own officers, and the village was, and to this day remains, the unit of administration in India. The principal village officer is the head-man—the patel or lambardar—who is a hereditary officer responsible for the peace and order of the village and the collection of revenue. He holds a plot of land called *watan* land as remuneration for his services. Then there is the village accountant or scribe—styled the kulkarni (*talati*) or patwari—who keeps the village records and accounts. There is also a watchman or chowkidar who has to report crime, arrest offenders, and help the police. Lastly, there is the village messenger. Most villages had in the old days their *panchayats*, bodies of village elders who settled disputes and generally held the village community together.

(iii) *The village artisans.*—Each village possesses its complement of artisans—a carpenter, a blacksmith, a potter, a cobbler, a money-lender (who is generally also a wholesale grain-dealer), a goldsmith, an oilman, etc. The artisans are the hereditary servants of the village. They are given houses in the village and are rewarded by a regular annual remuneration of service, land, or grain. Since the market for the goods produced by the artisans is limited there is an imperfect division of labour, and rural industry is of a very primitive type.

§4. **Life in the old village.**—Each village was almost *self-supporting* and *independent* excepting in the matter of salt and a few other luxuries purchased at the village fair or brought in by the *lamans* (caravans). The village was forced to be self-supporting as it was cut off from contact with the outside world, and exchanges were confined to those things which could be carried by men and pack-animals. Good roads (with the exception of the Mogul military roads) hardly existed. There were only a few natural waterways like the Indus and the Ganges, and internal trade in consequence remained undeveloped. Each village was, therefore, compelled to make its own arrangements to satisfy all its requirements. It led a smooth economic life in normal times, but in times of famine it inevitably suffered acute distress.[1]

Another feature of village life was *the rare use of money*, most of the exchanges being in kind. Grain being universally desired it was the standard of value. The rate at which payments to village artisans were made was determined by a complicated but well-understood set of village customs. In fact, custom rather than competition was the principal regulator of all the economic relations. Labour was *immobile* owing to the influence exercised by the joint family, the caste system and the general conservatism of the village people. There was a *stronger sense of unity and solidarity* than now exists. For instance, village tanks, temples and roads were kept in repair by communal labour, i.e. free labour supplied by the villagers themselves. The weakening of this *corporate life* is one of the most disquieting features of village life today.

Custom and status held sway over the villagers' lives. Custom (i.e. conventions based on habit), which was opposed to change of any kind, determined rent, wages and prices under the old economic order in India. Birth in a particular caste and family determined once for all the status of the individual in society and deprived him of freedom of contract.

§5. **The village in transition.**—The organization of the village community and its economic life are undergoing a change as a result of the new forces called into existence by administrative centralization, the growth of individualism due to the impact of Western civilization, and the revolution in transport and communications. Modern administrative centralization of revenue, police and justice has led to the weakening of the old village autonomy; the influence of Western individualism has brought about the disintegration of the old corporate feeling in the Indian village; and the revolution in transport due to the construction of a network of railways and roads and the introduction of the motor-bus has broken down the isolation of the village.

The principal features of the village in transition may now be briefly indicated.

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[1] See ch. viii, §6.

In the first place, *the old self-sufficiency of the village has broken down.* The village now buys from outside cloth, kerosene oil, aluminium ware, sugar, tea, matches, umbrellas, scissors, bangles, sewing machines, etc. In its turn the village now grows various products for the market, and exchanges with the outside world are now becoming more characteristic of the village than self-sufficiency.

The nature of the famine calamity has also been transformed with the possibility of importing food from distant places. Formerly, famines were those of food as well as of money. These have been replaced by famines of money, i.e. a famine nowadays means high prices (scarcity prices)and temporary unemployment in rural areas, and not starvation.[1] Although there may be no food in a particular village in a given year, this deficiency can ordinarily be made good by transporting it from other areas.

Barter has given way to money economy thanks to the growing frequency of exchanges with the outside world, and the remittances of those who go outside the village for employment. Land revenue and other taxes, rents, interest on loans and wages are now largely paid in cash. The old customary payments in grain for services rendered by artisans, etc. still continue to some extent, but their importance has greatly lessened.

The village people are now less stationary and often migrate to towns to supplement their incomes. The mobility is due to economic necessity and has been facilitated by improved means of transport.

Custom and status are gradually being supplanted by *competition and contract.* The institutions of caste and the joint-family system have weakened to some extent. Rents, prices and wages are coming more and more under the influence of competition. Keen competition among tenants for land has necessitated tenancy legislation to protect their interests. This change has been quickened by the spread of Western civilization, the growing use of money and the development of communications.

§6. **Transition in agriculture and village crafts.**—(i) *Agriculture has been commercialized* and the village has been linked with the whole country. Even world markets are now accessible to the Indian farmer for agricultural produce such as cotton, jute, oil-seeds, wheat and rice. The opening of the Suez Canal in

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[1] See ch. viii, §6.

1869 has helped to establish world-wide markets for agricultural produce. Another tendency is for different regions to specialize in different crops, e.g. Bombay in cotton, the Punjab in wheat, and Bengal in jute. The *substitution of non-food crops like cotton and jute for food crops* has resulted from the commercialization of agriculture, and has called into existence a new *complex marketing organization* at the ports and inland trading centres, controlled by a special class of middlemen, wholesale dealers and exporters.

The pressure on land has increased and land-holdings are being increasingly divided, though the old agricultural practices still continue.

(ii) *The village crafts* are in a state of transition. Cheap imports of machine-made goods, cloth, aluminium ware and kerosene oil have adversely affected the spinner, the weaver, the potter and the oilman. All the village artisans are no longer indispensable. Some of them like the carpenter and goldsmith have improved their position by migrating to towns. Those who have been unable to do so are pursuing their old occupations under increasing difficulties. Some have given up their hereditary occupations and joined the ranks of day labourers in the village itself or have migrated to towns. Altogether rural industry is in a depressed condition, and the problem of its revival is not easy to solve.[1]

§7. **Towns and industries in the old economic order.**—Although the great majority of the Indian population lived in villages in the pre-British period, the development of towns was by no means negligible. Some of the towns, like Benares and Allahabad, were places of pilgrimage, others like Delhi, Lucknow, Poona and Tanjore were the seats of courts or the capitals of provinces. Some like Mirzapur and Bangalore were commercial centres. Town industry was more advanced and adopted a more minute division of labour than rural industry. It was also well organized into guilds of artisans. The use of money was more frequent, and credit instruments like *hundis* were in common use.

In the past, according to contemporary standards, India was a great industrial as well as a great agricultural country. From very ancient times the fame of her arts and crafts had spread far and wide. The main industry was the textile. 'Weaving was the national industry and spinning was the pursuit of millions of women' (R. C. Dutt). The more important centres of the cotton industry were Dacca, Lucknow, Ahmedabad, Nagpur and Madura. There were also metal industries, the manufacture of arms, shields, enamelled ware, jewellery, and gold and silver thread, stone carving, tanning and leather works, paper-making and perfumery. Ship-building was in a flourshing condition and the iron industry had attained a high level of progress.

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[1] See ch. iii, §15; ch. iv, §§14-19.

§8. **Causes of the decay of old Indian industries.**—The decline of the handicrafts may be attributed to the following causes:

(i) *The disappearance of the indigenous courts*, which deprived several industries of the patronage of the courts and of the nobility.

(ii) *The operation of adverse foreign influences.*—The establishment of British rule indirectly weakened the power of the old guilds and brought about a change in the tastes of the people, especially of the educated middle class, who adopted the standards of the ruling race and favoured articles of Western manufacture.

(iii) *The policy of the East India Company and the British Parliament.*—Before the adoption of Free Trade by Great Britain about the middle of the nineteenth century, Indian industries were subordinated to British industries (under the old colonial policy) and were subjected to heavy tariffs in Great Britain.

(iv) *The competition of machine-made goods.*—The most important reason for the decay of the old Indian industries was the competition of machine-goods imported from Great Britain and from other countries which had already completed their industrial revolution. The revolution in transport in India, effeced by railways and roads, intensified this competition.

(v) *The laisser-faire policy of the Indian Government.*—Until recently (practically till the outbreak of the war of 1914-18), the policy of the Indian Government was that of leaving industry to its own resources. At the same time, the railways facilitated the imports of foreign manufactures on the one hand, and the exports of raw materials and food-stuffs on the other hand.

All these factors produced a far-reaching change in the economic life of the country. With the decay of the indigenous industries there was progressive ruralization, almost three out of every four persons coming to depend on land (whereas formerly perhaps 60% depended on land and 40% on industries). The foreign trade of the country expanded (the bulk of the exports being agricultural products and the bulk of the imports, manufactured goods) and thus there was a one-sided development of the national economic life.

§9. **Transition in industries.**—From the seventies of the last century, when the industrial position in India may be said to have been at its lowest, there has been a gradual and continuous progress of modern organized industries of the Western type. The way was led by British business men and capitalists in the plantation industries (tea, coffee, indigo). This served as a stimulus to commercial classes in India, especially in Bombay, which had the honour of giving a lead in this matter to other parts of India and winning for itself the position of the industrial capital of India. Its principal industry, the cotton mill industry, was started about the middle of the nineteenth century. At about the same time another important textile industry, the jute mill industry, was established round about Calcutta in Bengal, the capital and enterprise being European. The industrial revolution later spread to the mining industry, and to various other industries such as cotton gins and presses, steel and iron, rice-husking and grinding, and oil mills. Progress was at first slow. The swadeshi movement (which began in 1905) and the war of 1914-18, gave a stimulus to industrial development. The adoption of the policy of discriminate protection in 1923 has given a further incentive, although even today barely 1.5% of the population is engaged in organized industries.[1] The recent war has imparted a considerable fillip to the industrial development of India.

The economic transition described above has, to some extent, promoted the growth of towns in India. Railways and navigation, the growth of new industries (e.g. the rapid rise of Jamshedpur in Bihar due to the Tata steel and iron industry) and administrative centralization have in general made for urban development, though it has been very slow as compared with the rapid urbanization in Great Britain after her industrial revolution. Even today the urban population is only 11% of the total population in India. The diversion of trade routes and the decay of handicrafts have caused the decline of some towns, but on the whole the forces making for their growth are asserting themselves.

§10. **Conclusion.**—To conclude, India is passing through a stage of economic transition. If we look at towns like Bombay and Calcutta we find that they display something approaching a full development of economic conditions as found in the most advanced countries of Europe. On the other hand, in the vast rural areas the old order, while it has been shaken, still shows

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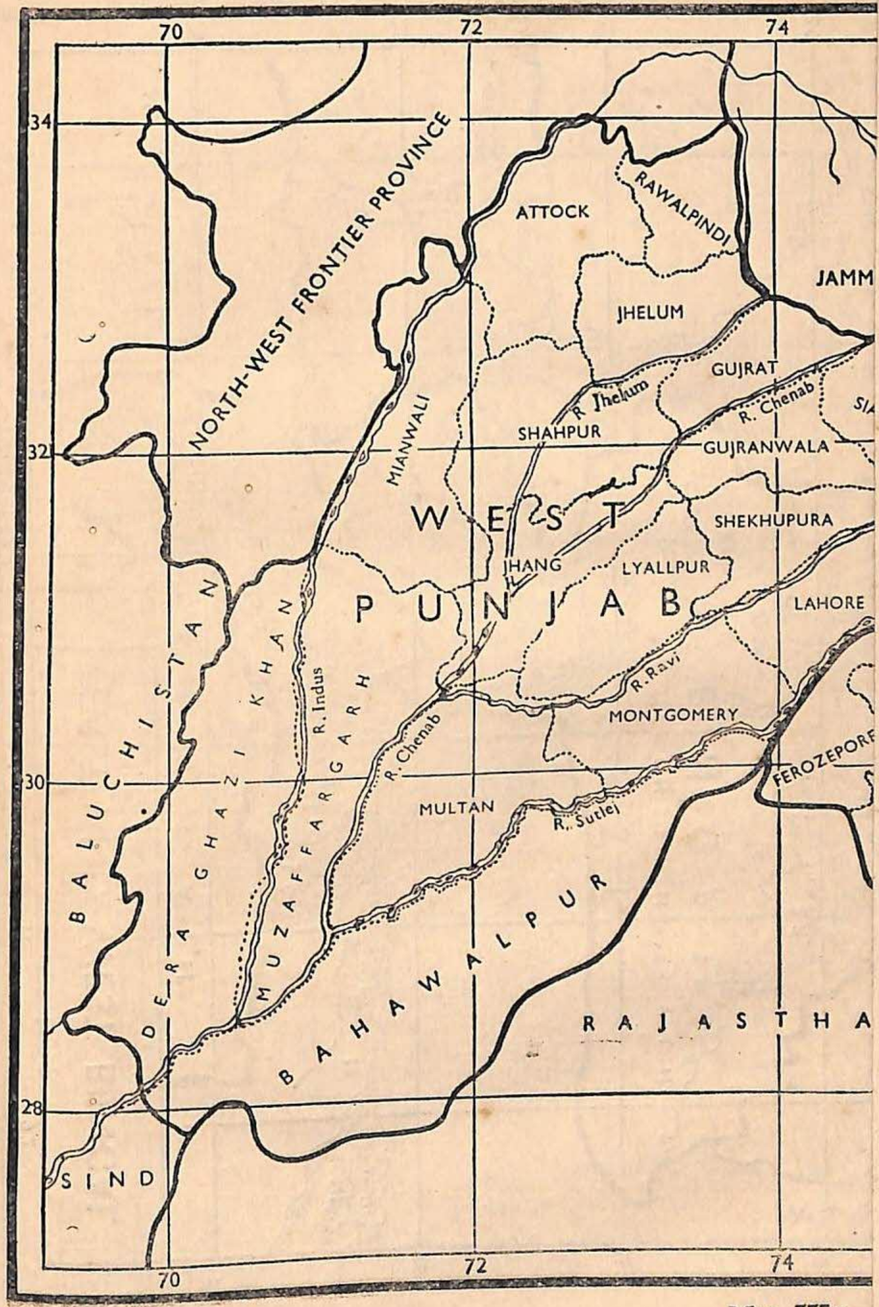
[1] For a description of some of the more important organized and cottage industries, and of the work of the Tariff Board, see ch. iv, §§7-19.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NORTH-WEST FRONTIER PROVINCE
ATTOCK
RAWALPINDI
JAMM
JHELUM
GUJRAT
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R. Chenab
SIA
SHAHPUR
GUJRANWALA
MIANWALI
WEST
SHEKHUPURA
JHANG
LYALLPUR
PUNJAB
LAHORE
BALUCHISTAN
DERA GHAZI KHAN
R. Indus
MUZAFFARGARH
R. Ravi
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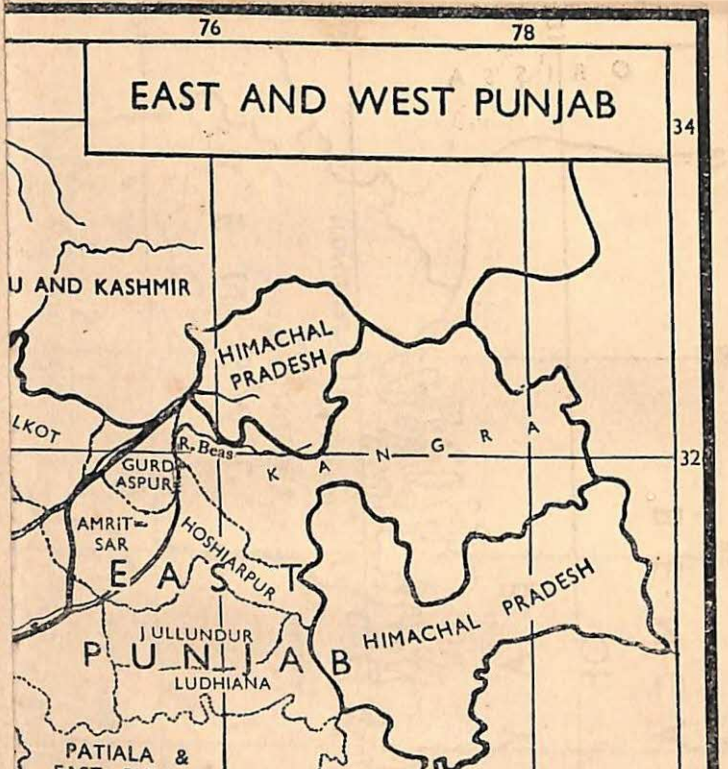

EAST AND WEST PUNJAB

great vitality. The general tendency is towards the establishment of conditions similar to those prevailing in countries that have accomplished their industrial revolution. Modern industrialism in India, as in other countries, has been followed by certain evils, such as overcrowding in factory towns, the decay of cottage industries, and the exploitation of the labour of women and children. But we need not conclude that these evils are unavoidable. It is quite possible to deal with them effectively by legislation and in other ways.

SUMMARY

India has been passing through a process of *economic transition* during the last hundred years. Fundamental changes in her economic structure and organization have taken place in consequence of the advent of the forces implicit in the term 'Industrial Revolution'. The pace of this revolution has, however, been slow as compared with that of the revolution in England. And India today shows the characteristics of countries that have not yet completed their industrial revolution and also of those that have completed it. Thus, the force of competition is making itself felt more and more, but custom is by no means dead. The economic isolation and self sufficiency of the village have been weakened but they are not altogether things of the past. Large-scale industries like the cotton mill industry have come into existence, but the old village industries have not been altogether extinguished. The use of money is growing in frequency without however completely supplanting barter and payments in kind. For example, the village artisans and menials are still generally paid in kind for the services rendered by them to the village community.

The general trend of events is, however, for the newer forces increasingly to assert themselves.

The transition in the old self-sufficient and self-governing *Indian village* has been brought about by the revolution in transport (railways, roads, motor transport, telegraphs, etc.), administrative centralization, and in general by the impact of Western civilization and individualism. *Agriculture* has been commercialized, and the farmer now grows largely for the market and imports from outside some necessaries like cloth and oil and a few simple luxuries. *Village industries* have on the whole been adversely affected by the competition of machine-made goods and are in a stagnant condition today.

India in the past was both a manufacturing and an agricultural country: she was famous for her skill in arts and crafts, in textiles, metal work, carving, embroidery, iron and steel manufacture and shipping. Various adverse influences such as the disappearance of the old courts and their patronage, changes in taste, heavy tariffs in England on Indian manufactures, and the *laisser-faire* and free trade policy followed until recently by the Indian Government brought about the decay of many of the indigenous industries and led to increasing ruralization of the country, thus adding to the pressure on the land. Since the seventies of the last century, there has been some growth of modern organized large-scale industries such as cotton, jute, mining, steel and iron. For a long time this growth was slow, but owing to the stimulus of the war and the policy of discriminate protection adopted in 1923, more encouraging progress has been in evidence in recent years.

Industrial and commercial towns like Bombay, Calcutta, Cawnpore and Jamshedpur are fast getting Westernized and conditions of life and labour in them are being radically transformed. The vast conservative rural areas are however changing only very gradually and still display many features of the old economy.

III

AGRICULTURE

§1. **The importance of agriculture in India.**—As we have previously stated, nearly three out of every four persons in India depend upon agriculture for their livelihood. Although agriculture is our principal national industry, it may be spoken of as one of our depressed industries considering the low yield per acre, the small, scattered, uneconomic land holdings, the indebtedness of the peasant, and the defective marketing organization.

AGRICULTURAL PRODUCTION

§2. **Statistics of area under different crops.**—Of the total area in 'British' India according to village papers, namely 511.9 million acres in 1939-40, the area under forest accounted for 68·11 million acres (13·3% of the total area), the area not available for cultivation for 89·31 million acres (17.4%), other uncultivated land other than current fallows for 97.19 million acres (19%), fallow land for 47·33 million acres (9.3%), and the net area sown with crops for 209.96 million acres (41%). The total sown area, including areas sown more than once, amounted to 244.57 million acres. Of this the area irrigated was 55·08 million acres.

India has a wide range of agricultural production, with a preponderance of food over non-food crops, and a certain tendency for non-food crops to displace food crops. Agricultural production provides practically all the food-grains consumed in the country, yields large quantities of raw materials like cotton, jute and oil-seeds for the principal manufacturing industries, and is the main source of our export trade. There is some room for extensive cultivation, but much more for intensive cultivation.

§3. **A survey of the principal crops of India** (see Map VII).—(i) *Food crops.*—(*a*) *Rice* is the leading crop of India and the staple food of most of the people. It accounts for about 29% of the whole cultivated sown area. Rice is grown extensively in India, especially in the wet and moist regions. The principal rice-growing provinces are Bengal, Bihar, Orissa and Madras, other rice-growing provinces being the United Provinces, the Central Provinces, and Bombay. Rice is a winter crop, being mainly harvested in December and January. There are different varieties of paddy grown in different parts of India, and the Imperial Council of Agricultural Research has in recent years intensified research work on rice. Since the separation of Burma India's exports of rice have become negligible; indeed, she has to import a considerable quantity of rice, mostly from Burma.

(*b*) *Wheat.*—Next in importance to rice in acreage is wheat, which covers about 11% of the total cultivated area. It is a *rabi* crop, sown from October to December and harvested from March to May. Wheat is the staple food of the people in the Punjab, the United Provinces and the North-West Frontier Province. Elsewhere, it is grown mainly for export. The principal wheat-producing provinces in India are the Punjab, the United Provinces, the Central Provinces and Berar, Central India States, Bombay, Bihar and Orissa, the first two accounting for nearly two-thirds of the total area. Exports of Indian wheat, which were considerable in the years before the war of 1914-18 have now disappeared owing to the increased cultivation of wheat abroad and the increase in the wheat-eating population in India itself. In recent years, the grower of Indian wheat had for some time to be protected by a high import duty, as cheap foreign wheats, especially Australian, were flooding the markets. With the development of Sukkur Barrage irrigation in Sind, and the newer Punjab canal colonies, the area under wheat has expanded. Owing to the great increase of population India is now compelled to rely to an important extent on imports of wheat from abroad. Imports of wheat and other foodstuffs being a considerable contributing factor in creating our present balance-of-payment difficulties, Government are committed to a policy of self-sufficiency in respect of food which it is hoped to achieve by the end of 1951.

(*c*) *Barley* is grown chiefly in the United Provinces and Bihar, and serves as food both for man and cattle.

(*d*) *Millets* (*jowar and bajra*).—These two varieties of the Indian millets constitute an important group of food crops for the masses in Madras, Bombay, Deccan, and the adjoining districts of Hyderabad. They also supply valuable fodder for the agricultural cattle. Both jowar and bajra are extensively grown, especially in the Deccan. Bajra is a *kharif* crop, while jowar is both a *kharif* and a *rabi* crop.

(*e*) *Pulses* are extensively grown throughout India and figure prominently in the dietary of the people. They are chiefly grown in the United Provinces, the Punjab, Bombay, the

Central Provinces and Bengal. Gram is the principal pulse, and about half of it is raised in the United Provinces.

(*f*) *Fruits and vegetables, condiments and spices, etc.*—The Indian fruit industry is not well developed, owing partly to small internal demand due to the poverty of the masses and partly to defective packing, transport and marketing methods. The Agricultural Department is now paying greater attention to these matters and notable success has been achieved in the Peshawar valley. Condiments and spices such as pepper, chillies, ginger, cardamom and betelnut are chiefly grown in the extreme south of India, though certain varieties are cultivated everywhere.

(*g*) *Sugar.*—India was probably the original home of sugarcane, and has a larger area under it than any other country. But the poor yield per acre and the large internal demand, lack of protection against imports (e.g. from Java), and defective organization of the Indian refined sugar industry, necessitated in the past large foreign imports. However, thanks to the grant of protection since 1931-2, and the keen interest in cane research taken by the Imperial Council of Agricultural Research, India's sugar industry has made rapid strides and the country has become almost fully self-sufficient in respect of refined sugar; indeed in recent years the sugar industry had to face over-production and take measures through the Sugar Syndicate to restrict its output. The bulk of the sugarcane is at present used for manufacturing *gur* or *gul* (unrefined country sugar). The chief cane-growing provinces are the United Provinces, the Punjab, Bihar, Orissa, Madras and Bombay.

(ii) *Non-food crops.*—(*a*) *Oil-seeds.*—India grows a variety of oil-seeds, such as linseed, sesamum rape and mustard, groundnut, coconut, castor, cotton-seed, *mowra*, niger, coriander, cummin, *ajwan* and *kardi*. Oil-seeds are an important group of crops and account for nearly 7% of the total cropped area. A large quantity is exported annually, although increased competition in foreign markets has adversely affected the exports in the post-war period. It is felt that India has not yet learnt to make the best use of her oil-seed resources, though attempts have been made to develop a local oil-crushing industry. Groundnut is the most important of the oil-seeds. The chief oil-seed-growing provinces are the United Provinces, the Central Provinces, Bihar, Orissa, Bombay, the Punjab and Madras.

(*b*) *Fibres*, such as cotton and jute, constitute an important group of crops.

Cotton is the leading fibre crop. There is a considerable area under cotton, grown mainly in Bombay, the Central Provinces, Berar, Hyderabad, the Punjab, Central India States and Madras. As a cotton-producing country India ranks next to the United States of America. Indian cotton is mostly short-staple, and is not suited for the manufacture of cloth of higher counts, such as that produced by Lancashire mills: Egyptian and American cotton are superior to Indian cotton in this respect. The Agricultural Department is doing a great deal to improve indigenous varieties and to encourage the cultivation of superior (i.e. American) varieties in India (e.g. in Sind). Attempts are also being made to increase the yield per acre. There is a large export trade in raw cotton, about 60% of the crop being sent out in normal years. Japan and China and, to some extent, the continental countries of Europe are the buyers of Indian cotton. The conditions created by the World War II resulted in the loss of the continental and Japanese markets for Indian cotton. The grower of short- and fair-staple cotton was, in consequence adversely affected, and a campaign was undertaken to substitute such cotton by food crops in 1942. Before the recent war there was a considerable increase in the consumption of Indian cotton in Lancashire mills, and this tendency is expected to be strengthened with the increased supply of long-staple cotton in Sind. The Indian Central Cotton Committee, which was established in 1921 to ensure a closer touch between the Agricultural Department and the cotton trade, has done a great deal to carry out improvements and to promote suitable legislation. The East India Cotton Trade Association was formed in 1922 for the improvement of the cotton trade.

India is the world's sole producer of *jute*. The cultivation is restricted to the Ganges-Brahmaputra delta in Bengal, Assam, Bihar and Orissa. The soil here is enriched by alluvial deposits suited to grow this exhausting crop without any expenditure on manure. The exports both of raw jute and of jute manufactures are a leading item in our export trade, of equal importance to cotton. The jute industry was in a depressed condition owing to the severe slump in prices and the general trade depression, and the acreage under jute was considerably curtailed. Owing to fluctuations in the price of raw jute and the demand for it during the recent war, the Government of Bengal had to adopt in 1941 a policy of compulsory curtailment of the area under jute.

(*c*) *Indigo* has had a highly chequered history. Until the competition of cheap German synthetic dyes began, the Indian indigo industry was in a flourishing condition, and was responsible up to 1907-8 for more than half the value of dyeing and tanning materials exported. Since then both the exports and the area under cultivation have seriously dwindled, and the future of the industry is uncertain. Salvation lies in cheaper production, both as regards cultivation and manufacture. Indigo is cultivated in Madras, the United Provinces, Bihar, Orissa and Bengal. Bihar is the most important province from the point of view of foreign trade.

(*d*) *Opium.*—The area under opium has declined progressively as a result of the policy of the Government of India. By international agreements all exports have been stopped except for medicinal purposes. The internal consumption of opium is also strictly controlled. The cultivation of the poppy is carried on under a system of Government licences in the United Provinces.

(*e*) *Coffee* is an exotic plant in India, and is mainly grown in Mysore State, Madras, Coorg, Cochin and Travancore. The competition of cheap Brazilian coffee in European markets has adversely affected the cultivation of coffee in India.

(*f*) *Tea.*—With the exception of China, India is the largest tea-producer in the world. The tea industry, which is the leading plantation industry in the country, has enjoyed a long spell of prosperity with growing internal consumption and foreign exports. The principal tea-growing areas are Assam, Bengal, Madras, Punjab (Kangra), the United Provinces and Travancore. There is a very large export of tea, especially to the United Kingdom, which takes about 90% of the Indian exports. Since the world economic depression this country has found it necessary to co-operate with other tea-producing countries of the world and adopt a scheme of restriction of output and of exports. The Indian tea industry has considerably benefited by the recent war.

(*g*) *Tobacco.*—There are two principal centres of the tobacco industry, eastern and northern Bengal, and southern India. The leading tobacco-growing provinces are Madras, Bengal, Bihar, Orissa, Bombay, the United Provinces, and the Punjab. The bulk of the tobacco is consumed locally, though Madras has a considerable export trade. Increased consumption of cigarettes has encouraged the opening of a number of factories for the manufacture of cigarettes in India. The Agricultural Research Institute at Delhi is devoting its attention to the question of improving the quality of Indian tobaccos. The heavy import duties on foreign tobacco and cigarettes, which are still imported in large quantities, are expected to stimulate the cultivation and consumption of Indian tobacco.

(*h*) *Fodder crops.*—The area devoted to these crops is inadequate in view of the large number of agricultural cattle needed in India. The principal areas are the Punjab, Bombay and the United Provinces. The Agricultural Department is giving much attention to the question of growing and storing fodders.

(*i*) *Rubber*, which is an important raw material in the industrial economy of today, is grown mainly in southern India. Most of it is exported. India's share in world production is very small.

§4. **Low yield of land and its causes.**—The yield per acre of land in the case of almost all crops is much lower in India than in countries where agriculture is better organized. For instance, the yield of cotton per acre in India varies between 75 and 100 lb. of lint cotton as compared with 180 lb. in the U.S.A. and 300 to 400 lb. in Egypt. India's outturn of sugar is stated to be less than one-third that of Cuba, one-sixth of Java, and one-seventh of Hawaii. The causes of low productivity are the uncertain character of the rainfall, floods, hailstorms, frosts and other vagaries of the climate, damage caused by wild animals, rats, locusts and other pests, inefficient methods of cultivation, small and scattered holdings, and the under-equipment of the agriculturist. Increased irrigation and the efforts of the Agricultural Department to deal with pests and to improve methods of cultivation may be expected to improve the yield.

LAND AND ITS PROBLEMS

§5. **Subdivision and fragmentation of holdings.**—We shall now discuss our two main problems relating to land, namely subdivision and fragmentation of holdings, and irrigation.

One of the greatest handicaps of Indian agriculture is the endless subdivision and fragmentation of land. Not only is the total size of the average holding too small, but it is also scattered in a number of tiny plots situated at inconvenient distances from one another. For instance, Ramalal Bhalla found that in the village of Bairampur in the Punjab 34·5% of the cultivators had more than twenty-five fragments each. A special inquiry into 2,397 villages in the Punjab disclosed that 17·9% of the 'owner' holdings were under 1 acre; a further 25·5% were between 1 and 3 acres, 14.9% between 4 and 5 acres, and 18% between 5 and 10 acres. In the village of Pimpla Soudagar in the Poona District, Dr Mann found that 81% of the holdings were under 10 acres, while no less than 60% were less than 5 acres.

The causes of subdivision and fragmentation are mainly the growing pressure of increasing population on the land due to the absence of a corresponding expansion of industries, the growth of a spirit of individualism responsible for the break-up of the joint-family system, and the operation of the Hindu and Muslim laws of inheritance and succession and the customs associated with them. It is easy to see how the size of the family holding would diminish with every division of the ancestral property among all the sons, or in general among large number of heirs. Subdivision is also usually accompanied by fragmentation, because every sharer usually insists on obtaining a fraction in every lot of the family land, instead of being satisfied with one compact block. It is clear that these laws and customs are more frequently invoked today than in the past owing to the growth of population and the failure of industry to expand sufficiently to absorb the increased population. The break-up of the joint-family system and the growing spirit of individualism have also aggravated the situation.

The evils of subdivision and especially of fragmentation are very serious. The cultivation of small holdings entails waste in a variety of ways. Even such poor equipment as the ordinary cultivator possesses, namely a pair of bullocks and a plough, is not always fully utilized, and the cost of cultivation increases unduly. Sometimes the plots are so small that they cannot be properly ploughed and cultivated. Fencing, sinking of wells and other improvements cannot be economically introduced. There is also a great waste of area due to the many hedges, baulks, *pattis*, etc. The employment of labour-saving devices becomes impossible. Great waste of labour and time in going from one field to another is entailed by fragmentation, which also gives rise to numerous boundary disputes. Subdivision and fragmentation in general destroy enterprise and impede thorough and intensive cultivation of the land. The cultivation of such holdings is not compatible with progressive agriculture and a high yield of land.

The great majority of the land holdings in India thus tend to be uneconomic, i.e. unprofitable to cultivate.

Remedies.—Attempts have been made in recent times to tackle the problem on a voluntary basis as well as by the method of legal compulsion. The object of such attempts is to secure to the peasant an economic holding, which is usually regarded as one 'which allows a man a chance of producing enough to support himself and his family in reasonable comfort after paying his necessary expenses' (Keatinge). Perhaps the best thing is to say that the end to be achieved is to arrange the relation between land, labour and capital so that it will lead to the greatest possible advantage to the producer. The object is to put the ryot in possession of a reasonably-sized holding, and to help him to improve his economic condition in so far as this can be done through such holdings.

Among the attempts on a voluntary basis, the most interesting is the experiment in consolidation of scattered holdings by the formation of Co-operative Societies for this purpose under the auspices of the Co-operative Department in the Punjab since 1920-1. The effect of consolidation of holdings, in so far as it has been achieved, has been beneficial. Land has become more productive and valuable, litigation and quarrels have decreased, and there is a keener desire for improvement. The pace of consolidation is increasing and has been accelerated owing to the Consolidation of Holdings Act (1936), allowing compulsion to be applied to a small and stubborn minority. Even so there is no guarantee that in future the work of consolidation will not be undone. Similar work has been done in the United Provinces and the Central Provinces, which have followed the lead given by the Punjab. Madras has made a small beginning in co-operative consolidation of holdings. In the Bombay Presidency, an unsuccessful attempt was made in 1927. In this connexion, we may note the Agricultural Commission's warning that in tackling the problem of subdivision and fragmentation, great caution and the utmost possible consideration of the opinions and prejudices of the people affected are necessary. However if substantial results are desired within a reasonable period we might as well face the fact that a certain degree of compulsion besides intensive propaganda will be unavoidable.

§6. **Importance of irrigation.**—Indian agriculture cannot be other than a risky occupation so long as it must depend exclusively on an uncertain rainfall, and it is therefore necessary to provide irrigation wherever possible. In certain parts of India, such as Sind, Rajputana and the south-west Punjab, which are practically rainless, cultivation is impossible except with the help of artificial irrigation. In other parts like the Deccan uplands, where the rainfall is precarious and ill-distributed, irrigation is necessary to overcome chronic drought. Some crops like rice and sugarcane require a large and regular water-supply. Second or winter crops, which are necessary to feed a growing population, require artificial irrigation in the absence of winter rains. The well-being of the large masses dependent on agriculture is affected by the adequacy of water-supply and it is for this reason that irrigation, especially in the form of wells and tanks, has been practised in this country from times immemorial. The distinctively British contribution consists in the large irrigation works constructed for the purpose of utilizing the surplus water of large rivers.

The *advantages of irrigation* are obvious, namely, increase in the yield of crops, introduction of stable agriculture in dry and precarious tracts, protection and insurance against famines and scarcity, larger railway profits in the agricultural provinces like the Puñjab, and direct financial gain to the Government. On the other hand, waterlogging and salt effervescence are dangers particularly associated with canal irrigation. These dangers have not always been effectively guarded against in the past, so that soils have sometimes deteriorated as a result of irrigation. The provision of adequate drainage in canal tracts and economical use of water are the remedies.

§7. **Main kinds of irrigation works.**—The three main kinds of irrigation works in India are: (i) Wells, (ii) Tanks, and (iii) Canals. The canals are of three types (*a*) inundation canals, (*b*) perennial canals, and (*c*) storage works.

(i) *Wells.*—Well-irrigation is a vital factor in Indian irrigation. There are 2,500,000 wells in the country, which water about 25% of the irrigated area. Wells are privately owned, although their construction is encouraged by the Government, which advances *takkavi* loans and assists in the installation of small power-pumps and tube-wells.

(ii) *Tanks*, which are a characteristic feature of Indian agricultural economy, are highly developed in Madras, where there are over 35,000 of these petty irrigation works. On the other hand, they are hardly known in the Punjab and Sind. They need to be further encouraged by the Government, especially where canal irrigation is impossible.

(iii) *Canals* are now the most important form of irrigation in India, and are specially encouraged by the Government. Different types of canals have been introduced in the various parts of the country. (*a*) *The inundation canals* are drawn directly from a river without the use of any barrage. They are seasonal in their character, obtaining water only when the river is flooded and reaches a certain level. Lands in Sind and the Punjab used to be, and to some extent still are, irrigated by such canals drawn from the Indus and the Sutlej respectively. (*b*) *Perennial canals* are constructed by putting some form of barrage across a river which flows throughout the year and diverting its water by means of canals to the land to be irrigated. They are to be found in the United Provinces, the Punjab and Madras. The Sukkur Barrage has converted inundation canals into perennial canals flowing all the year round as a result of the barrage constructed across the Indus. (*c*) *Storage works canals* are constructed by building a dam across a valley to store the monsoon rain-water. The water so held is distributed by means of canals. Such works have been constructed in the Deccan, the Central Provinces, and Bundelkhand, where the rivers are not perennial, and therefore necessitate artificial storage of water.

§8. **Classification of Government irrigation works.**—Until 1921 Government irrigation works were classified as follows: (i) Productive, (ii) Protective, and (iii) Minor.

(i) *Productive works* were expected to yield, within ten years of their completion, net revenue sufficient to cover the annual interest charges on the capital investment. Such works are mostly found in Northern India and Madras. In 1938-9, 24·71 million acres were irrigated by such productive works, the capital invested in them being Rs. 114 crores. This was the only type of irrigation works for which the Government raised loans.

(ii) *Protective works* were not expected to be directly remunerative, but rather intended to ensure protection against famines in precarious tracts like the Deccan. The cost of such works was met from the annual grants for famine relief and insurance. These works are economical indirectly and in the long run. The area irrigated by the unproductive works (see below) amounted to 2.88 million acres in 1935-6, the capital outlay on them being about Rs. 38.79 crores.

(iii) *Minor works.*—This was a miscellaneous class, including mainly old tanks taken over by the British Government. They were all financed from revenues.

Since 1921, this old classification, for the purpose of determining the source from which funds were to be provided, has been altered, and it is now possible to finance any work of public utility from loan funds. The classes of protective and minor works have been abolished, and all irrigation works, whether major or minor, for which capital accounts are kept, have been reclassified under two heads: (i) *Productive*, and (ii) *Unproductive*, with (iii) a third class embracing areas irrigated by *non-capital* works.

§9. **Growth of irrigation.**—The total capital outlay on irrigation and navigation works amounted to Rs. 152.8 crores at the end of the year 1938-9 as compared with Rs. 42.4 crores in 1901-2. The gross revenue for the year 1938-9 was Rs. 13.6 crores, working expenses Rs. 4.6 crores and the net return on capital 5.89%. The area irrigated by Government irrigation works has steadily increased from 10.5 million acres in 1878-9 to over 32.61 million acres in 1938-9, the estimated value of the crops so raised being about Rs. 109.35 crores (excluding non-capital works). The irrigation rates charged vary with the crop grown and are different in each province, as well as on the several canals in any given province. Thus in the Punjab they vary from Rs. 7-8 to Rs. 12 per acre for sugarcane, from Rs. 3-4 to Rs. 5-4 per acre for wheat, and so on.

The area irrigated by Government irrigation works (see Map VIII) is the largest in the Punjab (12.29 million acres out of a total of about 32.43 million acres in 1937-8). The percentage of the area irrigated by Government irrigation works to the total cropped area was 14.68%. Madras, the United Provinces and Sind are other provinces advanced in respect of irrigation facilities. The Bombay Deccan and the Central Provinces (excluding Berar), both of which are in need of irrigation facilities, are poorly developed. Bengal and Assam also show poor development, but their need is not so great thanks to more favourable rainfall. The total gross area irrigated in British India from all sources amounted to 60 (55 million net) million acres in 1939-40—29 million by canals, 6 million by tanks, 13 million by wells and 7 million by other sources.

§10. **Irrigation policy of the Government.**—The British Government inherited from its predecessors some of the present irrigation works such as a few inundation canals (i.e. the Ganges and Jumna canals) in Upper India, and storage works and tanks, especially in the Madras Presidency. From the middle of the nineteenth century the Government began to repair and revive the old works. Subsequently, the Government adopted a new policy of constructing and maintaining productive irrigation works, by raising loans for the purpose. The Famine Commission of 1880 recommended the construction of protective irrigation works as a measure of famine protection (e.g. in the Deccan), but progress was very slow on account of their heavy cost. A new chapter in the irrigation policy of the Government was opened in 1901, when the Irrigation Commission of that year made a series of recommendations with a view to extending as fast as possible the scope of productive and especially of protective irrigation works for the Deccan. Following their recommendations, the Government's earlier policy of concentrating on railway construction was modified in favour of irrigation, and a large number of new works were undertaken, with the result of more than doubling the capital outlay. Under the Reforms of 1919, irrigation became a provincial subject, and after 1922 remarkable activity in regard to irrigation works was in evidence. Among the new major works of exceptional importance are: (i) the Sutlej Valley project in the Punjab (completed in 1933) constructed at a cost of Rs. 33·31 crores and estimated to irrigate over five million acres, (ii) the Sukkur Barrage in Sind (completed in 1932) constructed at a cost of Rs. 24 crores and estimated to irrigate over five million acres, (iii) the Cauvery Reservoir and Mettur project (completed in 1934) estimated to cost about Rs. 7·37 crores and to command a new area of three million acres, and (iv) the Nizamsagar project (completed in 1933) estimated to cost Rs. 4.27 crores and to irrigate 275,000 acres. In Bombay two major works were completed in 1925 and 1926 respectively, the Bhandardara Dam, which is the highest (270 feet) in India and the Lloyd Dam at Bhatgar, the largest mass of masonry in the world. In the United Provinces considerable progress has been made with the Sarda-Oudh canals. The Damodar canal is an important work nearing completion in Bengal.

§11. **Canal colonies in the Punjab.**—These have played a striking part in the irrigational history of the Punjab. Before the advent of irrigation in the eighties of the last century, the whole vast stretch of the country now irrigated by the Lower Chenab, Jhelum and Bari-Doad Canals, was a desert owing to meagre and precarious rainfall. It was therefore necessary to transport bodily whole communities into the new areas opened up by canal irrigation. Colony tracts and villages were systematically planned, the land in each colony being divided into large and small squares and rectangles; roads were marked out; village boundaries were settled and so on. The colonists, who had to build their own houses, were judiciously selected by the Revenue officers in the congested districts from among the classes or hereditary landlords or occupancy tenants to hold the so-called 'peasant grants', under which the bulk of the land is allotted. The average area allotted to each individual is from one and a half to two squares, or about forty to fifty acres, larger grants being made to hereditary landlords of substance and status, and to enterprising men of means. Grants were also made in recognition of special civil and military services to the Government. What was once a treeless waste land has thus been converted into flourishing canal colonies. The peasant-proprietor, who holds nearly 80% of the land, is the backbone of these colonies, of which the three principal ones are Lyallpur, Shahpur and Montgomery (other colonies being the Sidhanai, Sohaj Para Jhang, Chunian, Upper Chenab and Upper Jhelum). The aggregate area of land covered by them amounts to five million acres (see Map IX). It may be added that the Government of the Punjab derives a substantial net revenue from these colonies which, in the words of Mr M. L. Darling, 'have, in fact, opened for the Punjab an era of prosperity undreamed-of in the past'.

LABOUR, EQUIPMENT AND ORGANIZATION

§12. **The Indian agriculturist.**—Having considered land, we may proceed to deal with other factors of the agricultural or rural economy of India, namely, labour or the agriculturist himself, his equipment, and the organization of his business.

It is clear that efficient agriculture depends largely upon the qualities of the farmer. As things stand at present the Indian cultivator or ryot must be acknowledged to be inferior in point of intelligence, enterprise and capacity for labour to the European or American farmer. His inefficiency is not, however, rooted in the nature of things, and is largely to be attributed to adverse factors such as chronic drought, pressure on land, lack of education and sanitary amenities in the rural areas, the load of indebtedness he has to carry, and the caste system. Glowing tributes to the careful husbandry combined with hard labour, perseverance and fertility of resource of the Indian agriculturist have been paid by foreign observers like Dr Voelcker.[1] At the same time we must admit that, generally speaking, he is lacking in originality and initiative and is too closely wedded to routine and traditional methods and practices. His conservatism is often an obstacle to reform and progress. It is necessary to improve both the farmer and his environment so that each may help the other. A comprehensive scheme of rural education suited to the rural environment and needs, providing for the education not only of children but also of adults of both sexes, is the first reform needed. The radio, the cinema, the magic lantern, exhibitions and demonstrations must all be pressed into the service of rural education. In the second place, sanitary conditions in villages must be improved by the provision of good drinking water, medical aid and improved housing. To overcome the farmer's conservatism it is necessary to aim at closer contact between village and town by means of better roads and communications and an efficient postal system. It is also necessary that absentee landlordism should be discouraged, and the landlord induced to take a more active and personal interest in the village agricultural improvement.

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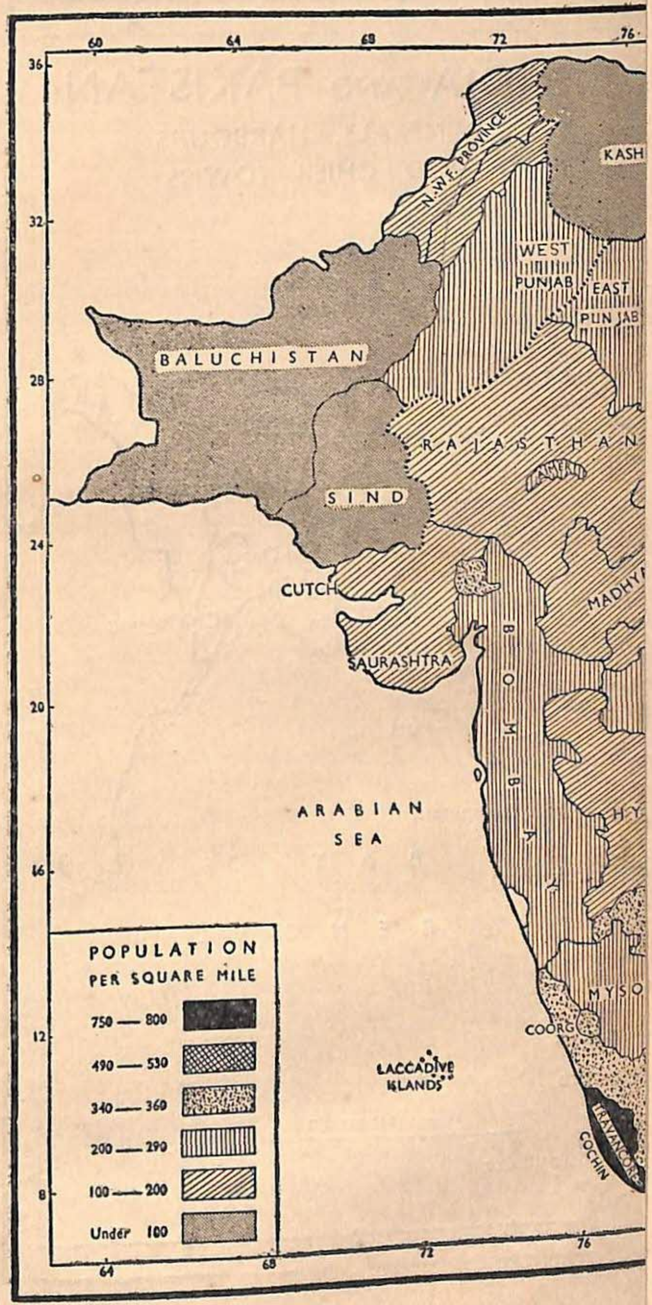
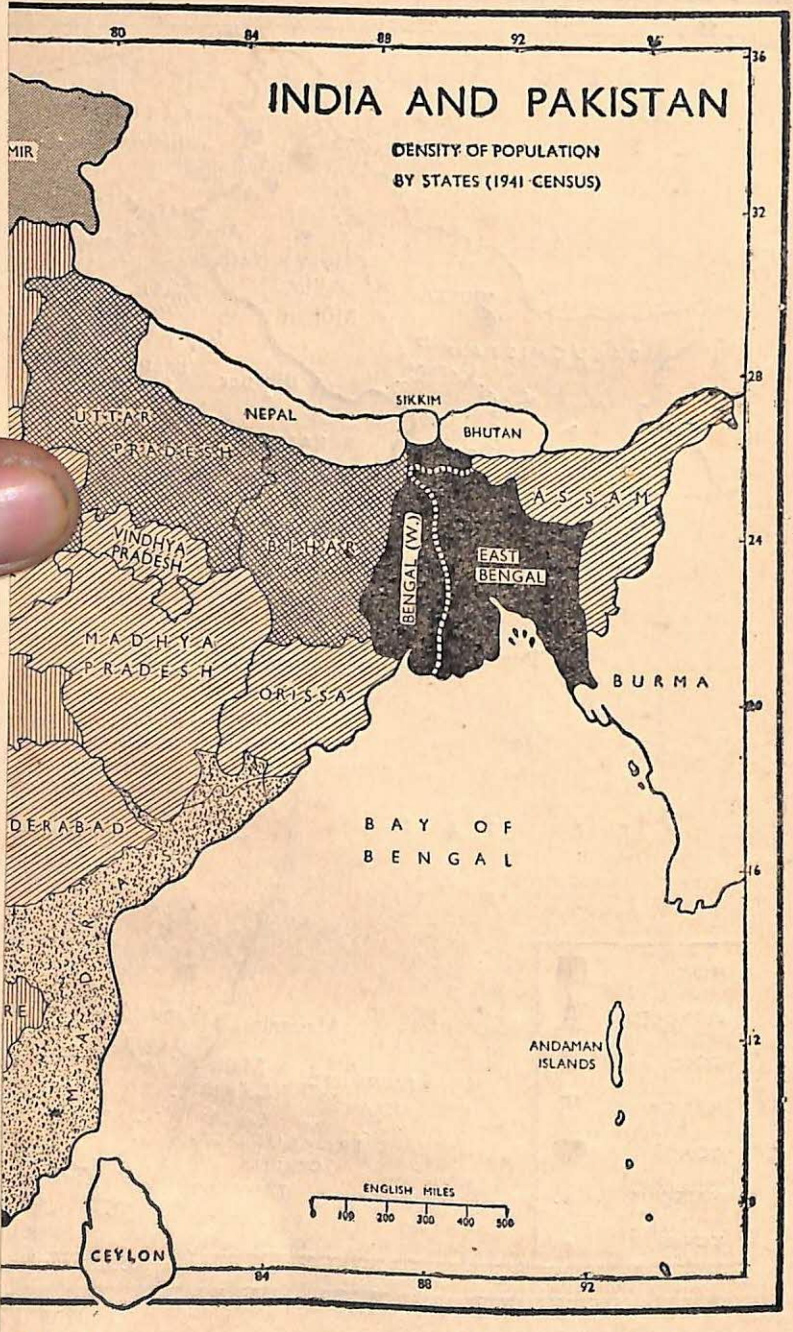
[1] See § 25.

§13. **Agricultural technique: methods of cultivation.**—The Indian agriculturist for the most part follows methods of extensive cultivation which are unsuitable in view of the smallness of the average holding. In this respect, Japan and China present a marked contrast, agriculture in these countries being carried on very intensively and thoroughly, almost like gardening. The salvation of the Indian peasant lies similarly in adopting intensive methods of cultivation. This involves more expenditure on permanent improvements and irrigation, more efficient cultivation, careful selection of seed, a better system of rotation of crops, and adequate manuring. The value of pure seed of good quality is great. A certain number of seed societies and seed farms exist, but they need to be multiplied in all parts of the country.

The application of manure and fertilizers is essential for increasing the yield of land. Alternative forms of fuel through afforestation should be provided in order to ensure the fuller use of farmyard manure and prevent the use of cow-dung as fuel. Manure pits in villages should also prove useful. In canal and other irrigated areas, fertilizers like ammonium sulphate, bone-meal, fish manures, and oil-cakes are being used in gradually increasing quantities thanks to the propaganda work of the Agricultural Department.

§14. **Equipment.**—(i) *Implements.*—The Indian agriculturist still largely uses his old and simple implements, which are cheap,


60
64
68
72
76
36
32
28
24
20
16
12
8
N.W.F. PROVINCE
KASH
WEST PUNJAB
EAST PUNJAB
BALUCHISTAN
RAJASTHAN
AJMER
SIND
CUTCH
SAURASHTRA
MADHY
BOMBAY
HY
MYSO
COORG
TRAVANCORE
COCHIN
ARABIAN SEA
LACCADIVE ISLANDS
POPULATION PER SQUARE MILE
750 — 800
490 — 530
340 — 360
200 — 290
100 — 200
Under 100
64
68
72
76


INDIA AND PAKISTAN
DENSITY OF POPULATION
BY STATES (1941 CENSUS)
80
84
88
92
96
36
32
28
24
20
16
12
8
MIR
UTTAR PRADESH
NEPAL
SIKKIM
BHUTAN
ASSAM
VINDHYA PRADESH
BIHAR
BENGAL (W.)
EAST BENGAL
MADHYA PRADESH
ORISSA
BURMA
DERABAD
MADRAS
RE
BAY OF BENGAL
ANDAMAN ISLANDS
ENGLISH MILES
0
100
200
300
400
500
CEYLON

Map V

light and portable, easy to make and to repair. Improved implements are, however, necessary to increase the productivity of the soil. Iron ploughs, improved harrows, hoes, seed-drills and fodder-cutters, sugarcane crushers, small-pumping machinery and water-lifts have been introduced to some extent, but much still remains to be done in this direction. It is clear that American methods based on an extensive use of agricultural machinery are ill-suited to a country of small peasants. Co-operative and joint-farming, however, would make possible to a limited extent the use of such machinery. The Agricultural Department (through its engineering section) is trying to popularize the use of improved implements.

(ii) *Live-stock.*—Cattle are the most important part of the live-stock possessed by the Indian cultivator. They supply practically all the motive power for ploughing and lift irrigation, and are a principal source of the manure commonly used and the chief means of rural transport. The importance of milch-cattle for a mainly vegetarian country is also obvious. It must, however, be admitted that the quality of Indian cattle leaves much to be desired. The country is maintaining an excessive number of cattle, but they are usually so poor and ill-fed that there is a serious deficiency of *cattle-power*. There are large numbers of useless cattle, but religious prejudices come in the way of their reduction. Moreover, over the greater part of India there is a shortage of fodder from December to July. Increasing attention must be paid to the growing of fodder crops and to the efficient storage and economical use of fodder supply. Cattle-breeding, which is at present neglected, must be practised more carefully and extensively. The big landlords must give a lead. The recent scheme of 'gift bulls', adumbrated by Lord Linlithgow, has served to focus public attention on this very important aspect of the rural economy of India. The Veterinary Department is doing useful work in cattle-breeding as well as in the prevention and treatment of cattle diseases like rinderpest, which take a heavy toll and inflict great losses on the farmer. The provision of veterinary aid in India is, however, most inadequate and needs to be substantially extended.

§15. **Rural industries.**—Agriculture needs organization as much as any other business, but in India it is at present in a very bad way both as regards internal organization (i.e. as regards holdings, permanent improvements and subsidiary industries and external organization (i.e. as regards marketing).

The absence of subsidiary industries which would enable the farmer to employ his labour-power more effectively and distribute it more evenly throughout the year, is a source of great economic weakness to the small landholder in India. At present there is a large waste of rural labour on account of the seasonal character of agricultural occupation. In the slack season the agriculturist is practically unemployed. As Mr Darling points out, 'the only way in which a small farmer can keep himself out of debt is by being frugal and industrious and by having a second string to his bow' as in Japan, France, Germany and Italy. Dairy-farming and cattle-breeding are promising as side-occupations. The following rural industries may also be mentioned: poultry-keeping, fruit-growing, market-gardening, hand-hulling, sericulture, bee-keeping, tanning, mat-making, bamboo and cane work, rope-making, making *bidis*, pottery, etc. It is clear that not all of these are suitable for every part of India, and that careful selection based on intensive regional surveys would be necessary.

Hand-spinning as a possible rural industry has received a good deal of attention because of the controversy which has centred in recent years round the *charka* and its association with Mahatma Gandhi, the great preacher of the gospel of the *charka*. It is argued that hand-spinning is simple, easily learnt, and is capable of being taken up and put aside any time so as not to interfere with agriculture, the main occupation of the people. On the other hand, *khaddar* cannot always compete successfully with the cheaper mill-made cloth, which is also cooler and more attractive. However, so long as the farmer is not and cannot be supplied with any other more remunerative supplementary industry, hand-spinning offers some chance of balancing his budget at the end of the year.

A more hopeful solution of the problem lies in promoting the establishment, in rural areas, of industries connected with the preparation of the agricultural produce for consumption and export, such as cotton-ginning, decortication of ground-nuts, rice-milling and -husking, and oil-pressing.

§16. **Marketing of agricultural produce.**—The main problem of the external organization of agriculture is the marketing of agricultural produce to the best advantage of the farmer. It is unfortunately true that from this point of view the existing marketting system suffers from several deficiencies. The Indian cultivator is normally dependent on the money-lender, to whom his crops are often mortgaged in advance. There are also several professional dealers and middlemen who are highly organized, and profit at the expense of the cultivator. Other handicaps of the cultivator are: low standard of literacy, absence of properly regulated markets and of combination among farmers, chaotic condition of weights and measures, inadequate storage facilities and defective communications in rural areas. Owing to his chronic shortage of capital and his inescapable cash liabilities like land revenue and rent, the farmer has to sell in a falling market and thus fails to get the best price. The system of sales in the larger markets through *dalals* (commission agents) is also defective. Apart from high brokerage, there are several unauthorized deductions to which the necessitous seller has to submit.

It is obvious that an efficient system of rural marketing is indispensable to secure rural prosperity and betterment. The two most hopeful measures of reform are: (i) *Co-operative sale* and (ii) *Regulated markets*.

(i) Co-operative Sale Societies have made some progress, notably in respect of the sale of cotton in Gujarat and Karnatak in Bombay, where the Provincial Co-operative Marketing Society has recently (1941) been established to serve the sale societies in the province as a whole. There are also Co-operative Commission shops for the sale of wheat in the Punjab, and societies for the sale of jute in Bengal. The Co-operative Sale Society offers many advantages, such as elimination of some of the middlemen with their high commission charges, use of correct weights and measures, proper grading of produce, competitive and fair prices, and advance of money against produce. The sale movement has, however, made only a limited progress, its main handicaps being inefficiency of management, the fact that the society has no hold on its members, and inadequate finance.

(ii) *Regulated markets*, such as those established in some districts in the Bombay Presidency under the Bombay Cotton Markets Act (1927) replaced by the Bombay Agricultural Produce Markets Act (1939), and in Hyderabad (1930), Madras (1933) and the Central Provinces (1935), are calculated greatly to improve existing marketing organization. Here trading takes place under proper rules and by-laws administered by a Market Committee on which growers as well as producers are represented.

Increasing attention is also being paid to the standardization of weights and measures. Reform in this matter is necessarily slow since it has to encounter strong obstacles set up by conservatism and custom.

In April 1934 the Government of India appointed Mr A. M.

Corresponding to the three main kinds of land tenures and influenced by them, there are three main kinds of Settlements (Baden-Powell), namely:

(i) *Zamindari Settlements* for single estates under one landlord, either on a permanent basis as in Bengal, North Madras and Benares, or on a temporary basis as in the case of the talukdars of Oudh (and a few zamindars in Bengal). The cultivation of land is done by tenants who pay rent to the landlord.

(ii) *Mahalwari Settlements* for estates of proprietary bodies, usually village communities as in Uttar Pradesh and the Punjab. The settlements with malguzars in Madhya Pradesh are officially included in the above class. In the Punjab there is no considerable body of tenants, and about half the land (including land in the new Canal Colonies) is held and cultivated by peasant proprietors. Though theoretically revenue is collected here not from individual cultivators but from joint holders of village estates who are jointly and severally responsible for it, in practice the share of revenue due from each is distributed and can be recovered separately. The Punjab peasants are, therefore, generally in the same position as peasant proprietors in Bombay and Madras.

(iii) *Ryotwari Settlements* for individual occupancies or holdings, e.g. in Madras and Bombay. The settlements in Assam and Coorg are in principle ryotwari though not officially so called.

§33. **Basis of assessment.**—In all *mahalwari* systems (including the Punjab), land revenue is technically said to consist of a fraction of the net assets of the estate as annually received. These assets mainly consist of the total rents actually received, calculated rental value in the case of lands held by the proprietors themselves, and certain miscellaneous profits from waste lands, fruits and wild produce. The fraction claimed by the Government has varied from time to time. It was very high in the beginning; it was reduced to 66% in 1833; under the Saharanpur Rules of 1855 it was further reduced to about 50%; and according to official claims the actual fraction realized in most cases is well below the theoretical maximum of 50%. In the Punjab, the fraction was reduced to 25% of the net assets in 1929. In Madras, the theoretical basis of assessment is the value of the net produce of land (i.e. gross produce minus expenses of cultivation). About half of this is fixed as the maximum land revenue. In Bombay, and also in Berar, there is no definite theoretical basis of assessment. The system is of an empirical character, and revenue rates depend upon certain general economic considerations, etc. In recent years, however, the rental value, as ascertained by records of leases and sales, has in practice been adopted as a basis of assessment. The Bombay Land Revenue Code Amendment Act (1939), while recognizing the general considerations, directs that the assessment rates shall not exceed 35% of the rental value (see §37 below). In Sind assessment rates depend upon irrigation and not upon rainfall, which is negligible. The period of settlement is also shorter than in Bombay state.

§34. **State landlordism.**—Two of the most controversial questions relating to land revenue in India are: (i) whether there is State ownership or individual ownership, and (ii) whether land revenue is a tax or rent. As regards the question of State ownership of land, the opinion generally held is that the State never claimed exclusive proprietary right over land in the pre-British period, and therefore subsequent Gvernment cannot be said to have succeeded to any such claim. In fact the existence of private property was definitely recognized under both Hindu and Muslim rule. In the eighteenth century, when the Mogul Empire broke up, the various usurping Governments did, however, claim to be the owners of the soil. The British Government everywhere recognized or conferred a private right in land, and in large areas of the country (e.g. Bengal, Oudh and the whole of Northern India) it expressly declared the proprietary rights of the landlords and village owners. Even in the ryotwari states like Bombay the position of the ryot or 'occupant' is not essentially different from that of the zamindar, and he exercises all the rights of a proprietor so long as he pays the revenue assessment. We may also refer here to another view, namely, that the Indian conception of land tenure is a compromise between the English theory of absolute property in land and the other extreme of State ownership.

§35. **Land revenue: tax or rent?**—If private ownership of land is granted it follows logically that the land revenue is a tax and not a rent. The whole question is highly complicated and does not admit of a definite answer one way or the other. The controversy is, however, a profitless war of words, since no question of actual practical policy at present in debate seems to depend upon how it is settled. It is sometimes said that if we admitted State landlordism we should also have to admit the right

Livingstone as the Marketing Expert on the staff on the Imperial Council of Agricultural Research. A central marketing staff and provincial marketing officers were also appointed, as suggested by the Royal Commission on Agriculture (1928). This new organization conducted marketing surveys of the principal crops in the different provinces to provide a common basis for future progress and issued comprehensive reports on the marketing of wheat, linseed, tobacco and rice. A notable piece of legislation is the Agricultural Produce (Grading and Marketing) Act (1937) which is intended to secure better returns to the cultivator by ensuring proper grading of his produce. An improved market news service has been established with the help of the All-India Radio organization. Marketing legislation has been promoted in several provinces on the advice of the Central Marketing Organization.

RURAL INDEBTEDNESS

§17. **Estimates of rural indebtedness.**—One of the most serious problems of the rural economy in India is the heavy burden of rural indebtedness. The Central Banking Enquiry Committee (whose report was published in 1931) estimated that the total agricultural indebtedness of the British Indian provinces was in the neighbourhood of Rs. 900 crores. The figures by provinces are as follows:

Bombay	.. Rs. 81 crores	Bihar and Orissa	.. Rs. 155 crores
Madras	.. ,, 150 ,,	Assam	.. ,, 22 ,,
Bengal	.. ,, 100 ,,	Burma	.. ,, 60 ,,
United Provinces	.. ,, 124 ,,	Central Areas	.. ,, 18 ,,
Punjab	.. ,, 135 ,,	Coorg	.. ,, 55 lakhs
Central Provinces and Berar	.. ,, 36½ ,,		

While it is true that the small peasant in India as in all other countries will, and has to, borrow and that he was indebted even in pre-British days, rural debt has shown an alarming increase, especially in recent years. It is estimated to stand at about Rs. 1,200 crores at present. It is not however so much the volume of indebtedness which gives cause for anxiety, as the fact that the greater part of the debt is unproductive and carries very high rates of interest. The burden on the peasantry has been made almost unbearable owing to the present fall in the prices of agricultural products.

§18. **Causes of indebtedness.**—The following are the main causes of rural indebtedness, apart from the extreme poverty of the masses:

(i) *Excessive pressure of the population on the land* and *sub-division* and *fragmentation of holdings.*—The growth of the population and the ruralization of occupations has increased the pressure on land. Far more people have to depend on land than are required for its thorough and profitable cultivation. Land holdings, moreover, are for the most part uneconomic and yield only a small income even in the best of years. The decline of cottage industries and the lack of subsidiary occupations have further worsened the economic position of the farmer.

(ii) *The insecurity of harvest.*—Indian agriculture in precarious tracts like the Bombay Deccan is a gamble in the monsoon. It may be said in general that an agricultural cycle of five years gives one good year, one bad and three that are neither bad nor good. It is only in good years that the peasant can keep himself out of debt.

(iii) *Loss of cattle due to famine and diseases* like rinderpest adds to the economic embarrassment of the cultivator and often compels him to borrow for purchasing cattle.

(iv) *Excessive love of litigation, and improvidence and extravagance* have been suggested as causes of indebtedness. While the Indian peasant is ordinarily frugal to a fault, on certain occasions like death and marriage ceremonies he spends beyond his means, owing largely to the tyranny of social custom and lack of education. It is, however, clear that the indebtedness due to causes (i) to (iii) is far more serious than that caused by the occasional extravagance of the peasant.

(v) *Ancestral debt*, which is inherited from father to son, may be regarded as one of the important causes of existing indebtedness. 'Innumerable people are thus born in debt, live in debt and die in debt passing on the burden to those who follow.'

(vi) *The modern change in the cultivator's position.*—As Mr Darling aptly remarks, 'prosperity is as much a cause of debt as insecurity of harvest'. The establishment of peace and order in India, the growth of towns, and the opening of world markets to Indian agriculture have made land a valuable security for borrowing from the money-lender, and the illiterate and uneducated peasant has not been able to resist the temptation to borrow.

(vii) *The money-lender and the system of usury.*—With the establishment of British Civil Courts for enforcing contracts, and the disintegration of the village community, which removed all restraint on the money-lender, the peasant's position was weakened. High rates of interest and the system of compound interest led to the exploitation of the ryots, many of whom came to be deprived of their lands. In fairness to the money-lender it may be said that the high rates he often charges are largely to be regarded as insurance against the great risk he runs of losing his capital.

(viii) *Land revenue policy.*—The heaviness of land revenue and the rigidity of its collection, as suggested by R. C. Dutt, have operated to increase the burden of indebtedness in both these respects since Mr Dutt's time, though their effects have been largely nullified by the present depression. The land revenue system requires to be made more elastic so that adequate and prompt suspension or remission of land revenue could be granted in times of rural distress, whether due to scarcity or fall in prices.

§19. **State policy regarding indebtedness.**—The gravity of the problem of rural indebtedness was forced on public attention by the Deccan Riots Commission (1875). From time to time the Government has adopted various measures to tackle the problem. In the first place, it tried to improve the Civil Law and procedure regarding agricultural debtors, whose tools, implements and cattle were exempted from attachment. The Deccan Agriculturist's Relief Act of 1879 gave power to the courts to go behind the contract between the agriculturist debtor and the money-lender, and to modify it in favour of the farmer by reducing the rate of interest and, if necessary, by restoring his land. The Act has not proved effective, and to some extent the facilities given by it have been abused. The Usurious Loans Act, consolidated and amended in 1918, seeks to determine the legal maximum amount of interest recoverable. Regulation of money-lending has been recommended by the Agricultural Commission, and the licensing of money-lenders by some of the Provincial Banking Enquiry Committees. The Punjab Regulation of Accounts Act (1930) requires money-lenders to use regular account books and to furnish to each debtor a statement of his account. Several of the Provincial Governments under the lead given by the Congress ministries have either introduced or passed legislation for the regulation of money-lending, and in some cases for the licensing and registration of money-lenders. The immediate effect of this legislation as also debt relief legislation has been the contraction of credit available to the farmer. This is not altogether undesirable in so far as it checks unproductive expenditure and creates a demand for co-operative credit.

A more hopeful solution is *debt conciliation* on a voluntary basis as suggested by the Central Banking Enquiry Committee. This is all the more necessary because the burden of past debts has greatly increased owing to fall in prices since the depression. The money-lenders also are more willing than they used to be to accept conciliation of debt by arbitrators. This plan is being tried in the Central Provinces, the Punjab, Bengal, Madras, the United Provinces, and in some of the Indian States like Bhavnagar.

Compulsory scaling down of debts is thought to be necessary in some provinces, and has already been provided for in Madras (1938) and the Central Provinces (1939). In Bombay the Agricultural Debtors Relief Act (1939), which has recently (1941) been applied to some talukas in the province, provides for the establishment of Debt Adjustment Boards for settling debts—on a compulsory basis—according to the capacity of the borrower to pay.

Land Alienation Acts have been promoted in some provinces as in the Punjab in order to restrict the transfer of land. This has, however, produced adverse reactions on rural credit and has led to an increase in the number of money-lenders exploiting the agriculturists.

Under the Land Improvement Loans Act of 1883 and the Agriculturists' Loans Act of 1884, the Government advances *takkavi* loans to agriculturists. This system of State loans has never been very popular, owing to red tape and strictness in recovery.

Probably the most promising among the measures adopted by the State to deal with rural indebtedness is the supply of credit on a co-operative basis through Co-operative Societies and Land Mortgage Banks.

THE CO-OPERATIVE MOVEMENT IN INDIA

§20. **The Co-operative Acts of 1904 and 1912.**—The idea of using co-operation as a means of fighting rural indebtedness in India and supplying cheap credit to the farmer was first suggested by Frederick Nicholson, a Madras civilian, who had made a special study of agricultural and other land banks in Europe. In his Report (1895-7) he pleaded powerfully for the introduction of co-operative credit societies on the lines of the well-known Raiffeisen societies in Germany. Mainly as a result of this, the Co-operative Credit Societies Act was passed by the Imperial Legislative Council in 1904. It provided for the formation of credit societies (rural and urban) only, and postponed all forms of non-credit co-operation. Any ten or more persons could apply for registration and form themselves into a credit society, if all of them were from the same village, or the same caste or tribe, or from the same town. In the case of rural societies unlimited liability was the rule; in the case of urban societies the matter was left to the option of the society. All profits had to be carried in the case of the rural societies to the reserve fund, urban societies being required to carry only one-fourth of the profits in this way. The societies were to raise the required working capital by entrance fees paid by members, shares (there being limitations on the value of an individual member's shares), deposits from members and loans from outside, and were to distribute the funds so raised among members only. Registrars were appointed in all provinces to exercise supervision over the organization and to control the movement. The Government reserved certain powers for itself such as compulsory audit, and dissolution of a society, if necessary, by the Registrar. To encourage the movement the Government offered certain concessions and privileges to the societies registered under the Act, such as exemption from income-tax, stamp duties and registration fees, priority over the ordinary creditors of a member and the grant to a new society of limited loans free of interest for the first three years.

In every province, the movement showed remarkable progress. In 1912, fresh legislation was passed. The new Co-operative Societies Act of that year recognized non-credit forms of co-operation affecting purchase, sale, production, insurance, housing, etc. It also recognized central societies such as (i) Unions, consisting of primary societies for mutual control and credit, (ii) Central Banks, consisting partly of societies, and partly of individuals formed for financing primary credit societies, and (iii) Provincial Banks, consisting of individuals (societies were later admitted) to supply finance to the whole movement in the province, ordinarily through the agency of Central Banks. The Act of 1912 gave a fresh impetus to the co-operative movement, and a number of societies for the sale of produce, cattle insurance, milk supply, yarn, silk and manure purchase, retailing of farm implements and common necessaries (consumers' stores) were started and prospered. The Maclagan Committee, appointed by the Government in 1914 (October) to review especially the financial aspects of the movement, made several useful recommendations which have largely determined the organization of co-operative finance in the various provinces. Under the Reforms of 1919, co-operation became a provincial transferred subject under the care of a minister. Some of the provinces like Bombay, Madras, Bihar, Orissa and Bengal have passed separate Co-operative Societies Acts, mainly based upon the framework of the All-India Act of 1912. In recent years, owing to the fall of agricultural prices and economic depression the movement has been passing through a critical stage, and this has focussed public attention on its major defects, such as ignorance, on the part of members, of true co-operative principles, inefficient management, laxity of internal control, unpunctual payments and large overdues. The Government should make a determined effort to remove these defects, enlisting all possible help from the non-official leaders of the movement.

§21. **Statistics relating to the co-operative movement.**— The latest available statistics (for the year 1940-1) relating to the co-operative movement in India are as follows: The total number of Co-operative Societies was 142,512. Of these 123,976 were Agricultural Societies, 17,459 non-Agricultural Societies, 611 Central Societies (including Provincial and Central Banks and Banking Unions) and 466 Supervising and Guaranteeing Unions. In the same year, Madras had 14,409 societies; Bombay 5,298; Sind 1,329; Bengal 40,384; Bihar 8,287; Orissa 2,715; the United Provinces 16,850; the Punjab 26,060; the Central Provinces and Berar 4,939; Assam 1,535; the North-West Frontier Province 944; Delhi 396; and Ajmer-Merwara 759. The movement has made a fair amount of progress in some of the Indian States as well. The number of members of primary societies in the year 1940-1 was 6,400,359, and the total working capital amounted to Rs. 109.33 crores. While these figures indicate substantial progress, there is still much scope for further extension in view of the large size and population of the country. Not more than 10% of the credit needs in rural areas even in advanced provinces like Bombay are being met at present through the co-operative agency.

§22. **The constitution and working of a primary agricultural credit society.**—Since the primary agricultural credit societies represent about 90% of the total number of societies, we may further examine their organization, management and working.

We have already pointed out that any ten persons from the same village can form themselves into such a society. The membership must not exceed one hundred in number. This is to ensure close supervision and mutual control. Liability is unlimited. This exercises an educative influence on the members by stimulating mutual control, and improves the credit of the society by inspiring confidence amongst its outside creditors. The management is democratic and honorary. It is entrusted to (i) a General Committee consisting of all members, which elects members of the Managing Committee and adopts the annual balance sheet; and (ii) a Managing Committee, which conducts the routine and executive business of the society and admits new members. There is also a paid Secretary. The working capital is drawn from two sources: (i) internal, comprising entrance fees, deposits by members, share capital (if any), and the reserve fund of the society; (ii) external, comprising loans and deposits from other societies, from the Government, and, most important of all, from the central financing agencies like the central and provincial co-operative banks. Under the Reserve Bank of India Act (1934) the provincial co-operative banks can be assisted by the Reserve Bank by way of extending to them discounting and loan facilities for short periods not exceeding three months. Since the internal sources, especially deposits by members, are not well developed, external sources of capital hold a dominant position in co-operative finance today. Loans are advanced usually for productive objects., i.e. for buying seed, cattle, manure and meeting other needs, of the agriculturist, such as payment of rent or land revenue. Loans for unproductive purposes, such as ceremonial expenses, are theoretically not permissible, but they are necessary for preventing the ryots from falling into the clutches of the money-lenders. The time of repayment is fixed so as to enable the members to return their loans after the crops are harvested. Punctual payment is essential, postponement being granted only in exceptional circumstances.

The main co-operative security is that offered by the honesty and character of the borrowing member. Material security in the shape of land is also accepted as collateral security. The borrowing member has to furnish sureties, usually from among the members.

Profits after meeting all expenditure are carried to the Reserve Fund, but the Act of 1912 permits distribution of dividends on share capital, if any, and a certain amount of expenditure on charity and education. Disputes between the society and its members are settled by arbitration. The Registrar can dissolve a badly managed society after an inquiry into its affairs.

§23. **Benefits and limitations of the co-operative movement.**—The co-operative movement in India has conferred substantial benefits on the country. It has, for instance, made cheaper credit available to the agricultural and artisan classes, and much saving in respect of the interest paid by them has thus been effected. The money-lender's monopoly has been broken in many a village. With the progress of co-operative banking, the hoarding habit has received a welcome check. Agriculture has benefited in a variety of ways. The movement has promoted the organization of agriculture on a co-operative basis (as in Denmark), supplying the various needs of the peasant. It has also helped the Agricultural Departments in popularizing improved seed, cattle and implements. The multi-purpose society combining in itself the supply of credit, marketing of produce and purchase of agricultural and other requisites, is now being introduced in several provinces and promises to bring about a speedier amelioration of agricultural economy. Co-operation thus bids fair to assist the farmer to realize the ideal of 'better farming, better business and better living'.

Societies started for special *non-agricultural purposes*, such as Urban Banks (organized on the lines of the Schulze-Delitzsch Banks in Germany), weavers' and artisans' societies, factory workers' and salaried employees' societies, housing societies and consumers' stores, are also doing useful work, though as yet on a small scale, in their respective fields. Co-operation is proving most helpful to cottage industries such as the hand-loom weaving industry.

Apart from economic or material benefits, co-operation has also conferred certain intellectual and moral advantages. As Sir Malcolm Darling says: 'Litigation and extravagance, drunkenness and gambling are all at a discount in a good co-operative society and in their place will be found industry, self-reliance, and straight dealing, education and arbitration societies, thrift, self-help and mutual help.' The co-operative society of the State to exact the full economic rent. But this is a consequence which we cannot escape in any case because it is a universally accepted maxim of taxation that theoretically the whole of the economic rent may be absorbed in taxation without hurting the taxpayer, provided that the economic rent can be separated from wages, profits and interest. It is also generally agreed that in considering the incidence of taxation, land revenue should be regarded as a tax.

§36. **Ricardian theory in relation to the land revenue in India.**—As we have seen, the principles governing assessment vary from state to state so far as their formal statement is concerned. The general claim of the Government, however, is that in the net result, the land revenue forms everywhere in India a certain moderate proportion of the economic rent. This is clearly not the case if we take into account the large number of uneconomic holdings in India. Here the land tax is an appropriation of the bare minimum of subsistence left to the cultivator. Elsewhere also, pure or true rental value cannot be accurately determined, since owing to the pressure on land and the lack of alternative occupations the actual rents paid by competing tenants are likely to be higher than the true economic rent of land. Economic necessity is further strengthened by the traditional sentiment in favour of investment in land. The economic rent in the Ricardian sense therefore bears no definite relation to the assessment, though we cannot at the same time say that in every case land revenue falls on the income earned.

§37. **Need for reform.**—There is, however, a strong case for lowering the standard revenue rates, say to 25% of the annual value of land as suggested by the Indian Taxation Enquiry Committee of 1924-5. By annual value they mean the gross produce less cost of production, including the value of the labour actually expended by the farmer and his family, and the return for enterprise. It is also desirable to bring under legislative control the process of revising the land revenue assessment, as in the Punjab where legislation was passed in 1928-9 extending the term of assessment to forty years, and fixing the share of the Government at 25% of the net assets. Legislation similar in principle has also been passed in Uttar Pradesh and Madhya Pradesh. In Bombay a Bill to amend the Land Revenue Code was placed on the Statute book in 1939. It prescribes a thirty-year period of settlement and a definite procedure for land assessment, which is not to exceed 35% of the rental value of land, lays down maximum limits to the increase in the assessment and protects private improvements.

SUMMARY

AGRICULTURAL PRODUCTION

Agriculture holds a dominant position in our economic life, nearly 70% of the population being dependent on the land for their livelihood. It is, however, in a depressed condition and needs much improvement in order to promote rural prosperity.

Agricultural production in India covers a wide range of crops. Food crops like rice, wheat, barley, millets, pulses, and sugarcane are the leading crops. There has, however, been a certain tendency for non-food crops like oil-seeds, cotton and jute to encroach on the food crops owing to the high prices and ready sale they have commanded until recently in the world markets. *Different states and tracts specialize in the different crops* according to their climatic and soil conditions. Thus Bengal, Bihar and Madras specialize in rice; the Punjab and Uttar Pradesh in wheat; Madras, Bombay and Berar in millets (jowar and bajra); Uttar Pradesh, the Punjab and Bihar in sugarcane; Uttar Pradesh and Madhya Pradesh, and Bihar in oil-seeds; Bombay, Madhya Pradesh and the West Punjab in cotton; Bengal in jute; southern India in tea, coffee, spices and condiments; Assam in tea.

The yield of the land per acre in India is very low in comparison with other countries. It is, however, capable of being increased by the adoption of intensive methods of cultivation.

LAND AND ITS PROBLEMS

One of the serious handicaps of the Indian agriculturist is the *endless subdivision and fragmentation of holdings*, many of which are uneconomic. Their cultivation entails great waste. They hinder agricultural reforms and give rise to boundary disputes. The evil has been attributed to the Hindu and Muslim laws of inheritance and succession, but is in the last resort traceable to the increasing pressure on land due to the growth of population and lack of alternative occupations. Attempts are being made to deal with this problem on a voluntary basis, as also by the method of legal compulsion. A certain amount of success has attended the interesting experiment in the Punjab of consolidation of scattered holdings on a co-operative basis. Legal compulsion does not appear to be a suitable method in the peculiar conditions of India.

Irrigation is an imperative need of agriculture especially in rainless deserts and precarious tracts and has in various forms been practised from time immemorial.

Wells, tanks and canals are the principal kinds of irrigation works in India. Canals are of three types: inundation canals, as in the Punjab; perennial canals, as in Uttar Pradesh and in Sind and the Punjab; and storage works as in the Deccan. Government irrigation works (mainly canals and to some extent tanks, especially in Madras are either productive (i.e. pay their way within ten years of their completion) or unproductive, (i.e. not directly may be regarded as a nursery for training in self-government and the duties of citizenship.

We must, however, realize that all these advantages—moral and educational as well as purely economic—have been secured only on a very small scale. We have already referred to certain defects in the working of the co-operative societies, such as unpunctuality of payments, inefficient control, large overdues, etc. There is in many cases very little true co-operation, and often a mercenary view of the society is taken by its members. The ignorance and illiteracy of the rural population are the greatest obstacles to the success of co-operation in India. The movement is at present passing through a healthy phase of criticism, which has been appreciably assisted by the Statutory Report issued (1937) by the Reserve Bank of India on the subject of agricultural credit and the recent (1941) review of the co-operative movement in India by the same institution, and there is a keen desire both in official and non-official quarters to remedy the various defects and strengthen it, even if the progress is slow. Accordingly the co-operative movement is being rectified and consolidated and increasing attention is being paid to co-operative training. It has been well said by the Agricultural Commission that 'if co-operation fails there will fail the best hope of rural India'.

§24. **Land Mortgage Banks.**—The experience gained since the introduction of the co-operative movement in 1904 has shown that the credit societies, as well as the Central and Provincial Banks, can supply only short-term credit. But long-term credit is essential for the redemption of old debts (which carry a heavy burden of high interest rates), for effecting permanent improvement of the land and generally for introducing better agricultural methods. It is now fully realized that these needs can be met only by a special type of banking institution, namely the Land Mortgage Bank, organized largely on co-operative lines to suit the requirements of small farmers and actively helped by the State. Such Land Mortgage Banks already exist in several provinces such as the Punjab, Bengal, the Central Provinces, Bombay and Madras. The last mentioned province has shown remarkable progress and had to its credit over 120 Land Mortgage Banks in 1940-1: the total number of such banks in India being 252. The increase in the burden of rural debts owing to the fall of agricultural prices in recent years and the cheap rates at which money can be raised today by the issue of long-term debentures (bonds) against the security of land by the Central Land Mortgage Banks have given a further stimulus to the starting of such banks. For instance, the Bombay Government has already established seventeen such banks in the various parts of the province. A Provincial Land Mortgage Bank has also been established at Bombay, as in Madras province, to facilitate the issue of land-mortgage debentures. Apart from debentures, Land Mortgage Banks raise funds by the issue of share capital and by inviting long-term deposits. Loans are given against the security of land for long periods varying from 10 to 30 years for the redemption of old debts, purchase of costly agricultural implements, and purchase and improvement of land.

The State (i.e. the Provincial Government) helps these banks in various ways. In most provinces the Government guarantees the principal of and interest on land-mortgage debentures. It also agrees to buy a certain amount of such debentures, and lends free the services of its revenue officers for the correct valuation of land, which is necessary before advancing loans to the members of the Land Mortgage Banks. Land-mortgage debentures have been declared as trustee securities for the investment of trust funds.

STATE AID TO AGRICULTURE

§25. **The evolution of the Agricultural Departments.**—We have already referred to the efforts of the Agricultural Departments to improve agriculture. We shall now give a further account of the relation of the Government to agriculture. The necessity of improving the cultivator's position and the agricultural system has been definitely recognized by the State for a long time. As a result of the recommendations of the Famine Commission (1880) Agricultural Departments were established in the various provinces under Directors, Deputy-Directors, Superintendents and Overseers in 1884. A stimulus was given to the work of these newly started departments by the visit of Dr Voelcker, Consulting Chemist to the Royal Agricultural Society, who was sent to India in 1889 by the Secretary of State to report and advise on our agricultural practice from the modern scientific point of view. In his Report, Dr Voelcker emphasized the value of agricultural education and improvement. An Agricultural Research Institute was established at Pusa in 1903 together with a college for more advanced training and special short practical courses. This Institute was recently (1936) shifted to New

Delhi. In 1905 certain improvements were introduced in the organization of the Departments and larger funds were provided for agricultural experiments, research, demonstrations and instruction. The Agricultural College at Poona was started in 1908, and in subsequent years similar colleges were established at Cawnpore, Nagpur, Lyallpur, Coimbatore and Mandalay. The Agricultural Departments were strengthened by the appointment of agricultural engineers who were to give the necessary advice to the cultivators as regards agricultural machinery and its installation. An All-India Board of Agriculture was founded in 1905 in order to bring the provincial departments more into touch with one another and to discuss questions of common interest at their annual meetings, and make recommendations to the Government of India. The latter's control over Provincial Governments has been considerably relaxed since 1921, when Agriculture became a transferred subject under a minister. On the recommendation of the Royal Commission on Agriculture (1928) a big step forward was taken in 1929 (July) when the Imperial Council of Agricultural Research was established. At the same time the advisory functions of the Agricultural Adviser to the Government of India were transferred to the newly created Council. The establishment of the new central and provincial marketing organization has already been referred to. The Agricultural Departments are assisted and their work supplemented by the Co-operative Department and by certain bodies like the District Agricultural Associations, Village Uplift Committees and Taluka Development Associations as in the Bombay province.

§26. **Work of the Agricultural Department.**—The provincial Departments of Agriculture carry on (i) experiment and research on agricultural farms and laboratories; (ii) organize propaganda work to demonstrate and secure the adoption of new methods and improved implements, the introduction of new manures, production and distribution of pure seeds and improved varieties of crops (e.g. cotton, wheat, rice, sugar-cane, etc.); and (iii) control agricultural education imparted in agricultural colleges and schools. Useful work is also being done on certain fundamental problems of agricultural chemistry, soil improvement and control of agricultural pests. The demonstrations given by the department are conducted on Government farms or the fields of cultivators. Agricultural and cattle shows and exhibitions are also arranged from time to time. We have already referred to the work of the Veterinary Department. Lack of adequate funds, the vast areas over which the work has to be carried on, the red-tapism inseparable from all Government activities, and the conservatism and illiteracy of the rural masses are some of the obstacles in the way of rapid improvement. These are, however, being gradually overcome.

In this connexion, we may refer to the work being done by the Imperial Council of Agricultural Research whose main duty is to promote, guide and co-ordinate agricultural research work throughout India and thus extend help to the provincial Departments of Agriculture in agricultural and veterinary matters. The Council consists of a Governing Body and an Advisory Board. The Council spent more than a crore of rupees, received as grants from the Government of India, during the first six years of its existence on research in agriculture and promoted various useful schemes of agricultural development. Those concerning the sugar industry and the improvement of the agricultural marketing organization deserve special mention.

§27. **Indian agriculture during the war of 1939-45.**—On the whole the Indian agriculturist did not benefit by the recent war. Although initially prices rose, the loss of the Continental market and more recently of the Japanese and other Far Eastern markets has depressed the prices of agricultural staples like cotton and oilseeds. On the other hand the cutting-off of imports of rice from Burma and of wheat from Australia and the transport difficulties in the country itself have created a shortage of food-grains for the population, which is much bigger than during the last war. To meet the situation thus created a 'Grow More Food' Campaign was launched in 1942 by the Government, who further undertook to take suitable measures, including purchases in the open market, if necessary, with a view to sustain prices of food-grains.

§28. **Village uplift.**—As the Agricultural Commission truly remark, 'no substantial improvement in agriculture can be effected unless the cultivator has the will to achieve a better standard of living and capacity in terms of mental equipment and physical health, to take advantage of the opportunities which science, wise laws and good administration may place at his disposal'. The demand for better life can be stimulated only by a deliberate and concerted effort to improve the general conditions of the countryside where the great majority of the people live. The responsibility for initiative in this matter rests with the Government.

remunerative but urgently needed to protect precarious tracts like the Deccan from famines and drought).

The Government in the past largely concentrated on the former, but is now devoting greater attention to the latter. Irrigation activity greatly increased after the subject of irrigation was transferred to the provinces (as they were then called) under the Reforms of 1919. Big schemes like the Sukkur Barrage, the Sutlej Valley project, and the Cauvery Reservoir and Mettur project, the Nizamsagar project, the Lloyd Dam were launched.

The Canal Colonies in the Punjab are an arresting feature of irrigation in that province and have largely contributed to its prosperity. The principal colonies are Lyallpur, Shahpur and Montgomery.[1]

LABOUR, EQUIPMENT AND ORGANIZATION

The Indian cultivator shows a curious combination of conservatism and prejudice with patience and hard work on the one hand, and on the other, of improvidence with frugality. An improvement of his environment through rural education, better sanitation and communications in rural areas, and a keener interest in land by zamindars is needed to make him a more progressive and efficient farmer.

The Indian agriculturist for the most part follows *extensive methods of cultivation*. His salvation lies in adopting intensive methods of cultivation as in China and Japan. For this purpose, irrigation, rotation of crops, increased application of manure, supply of pure seed, improved implements and cattle are essential. The present position in all these respects is not satisfactory though, thanks to the efforts of the Agricultural Department,[2] a certain amount of improvement is taking place.

The two most important problems of agricultural organization relate to (i) subsidiary rural industries, and (ii) marketing of agricultural produce.

(i) *Subsidiary industries.*—In the absence of subsidiary industries to fill up his spare time during the slack agricultural season and to supplement his small income from land, the cultivator's economic position is very weak. The provision of supplementary industries suitable to the various rural areas—such as dairy-keeping, poultry-farming, fruit-growing, sericulture, rope-making—is urgently needed. Hand-spinning is useful but not sufficiently remunerative.

(ii) The present system of *agricultural marketing* is very defective and does not operate to the best advantage of the cultivator, who is handicapped by his indebtedness, illiteracy, defective rural communications, lack of uniformity of weights and measures, lack of storage facilities, and the many unauthorized deductions from the price he receives in the unregulated markets.

Marketing of agricultural produce through co-operative sale societies and the establishment of regulated markets, which provide for the safeguarding of the cultivator's interest through market committees on which he is represented, are proving very useful.

The Union and State Governments are evincing keen interest in this matter and have arranged for marketing surveys through a special agency of marketing experts and officers.

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[1] All three now in Pakistan.

[2] Now the Ministry of Agriculture.

RURAL INDEBTEDNESS

Agricultural indebtedness, before the Partition, was estimated at Rs. 1,200 crores in British India alone. The main causes of the indebtedness of the peasant are: excessive pressure on land, uneconomic holdings, insecurity of harvests, loss of cattle due to famine and disease, loss through litigation, improvidence and ancestral debt. The system of money-lending in the changed social and economic conditions of today has also contributed to the growth of rural indebtedness.

The Government has, since the seventies of the last century, adopted various measures to tackle the problem of rural indebtedness, such as improvement of the civil law regarding rural debts, anti-usury laws, regulation and registration of money-lending, scaling down of debts either on a voluntary or compulsory basis through the machinery of Debt Conciliation Boards or otherwise, restrictions on the transfer of land, grant of State loans (*takkavi*), and provision of credit through Co-operative Societies and Land Mortgage Banks.

THE CO-OPERATIVE MOVEMENT IN INDIA

The first Co-operative Credit Societies Act was passed in 1904. Rural and urban societies were started on the lines of the well-known Raiffeisen and Schulze-Delitzsch Societies in Germany. Registrars of co-operative societies were appointed in the several provinces, and the new movement soon struck root in the country. Its scope was widened by the Amending Act of 1912, which recognized non-credit societies, central financing societies and unions. The progress of the movement has been remarkable, especially since 1921 when co-operation became a transferred subject under the control of ministers in the provinces. Since the economic depression which started in 1929, however, the movement has been passing through a crisis partly owing to certain defects in the movement itself such as laxity of internal control and management and lack of co-operative spirit and training.

Co-operation is, however, the only salvation of the Indian peasant and artisan. The rural co-operative society with its honorary services, democratic management and joint responsibility is very well suited to supply the small farmer with controlled credit on reasonable terms and also generally to make him a better citizen. The good work done by the credit society must be supplemented by a general organization of agriculture on a co-operative basis, as in Denmark, so as to secure fuller advantages of co-operative sale and purchase, co-operative farming, etc. In co-operation also lies the hope of artisans like the weavers, factory workers and depressed classes. The middle classes have also found co-operation very useful in dealing with their own problems of housing, the supply of household requisites and of credit.

Co-operative credit societies which are financed by Central and Provincial Banks cannot, however, solve the problem of the supply of long-term credit for redemption of old rural debts, land improvement, etc. Land Mortgage Banks, organized mainly on co-operative lines, are necessary to meet this need. They have already been started in some states. The State has offered them help by guaranteeing the principal of, and interest on, the debentures issued by them, and by the direct purchase of such debentures.

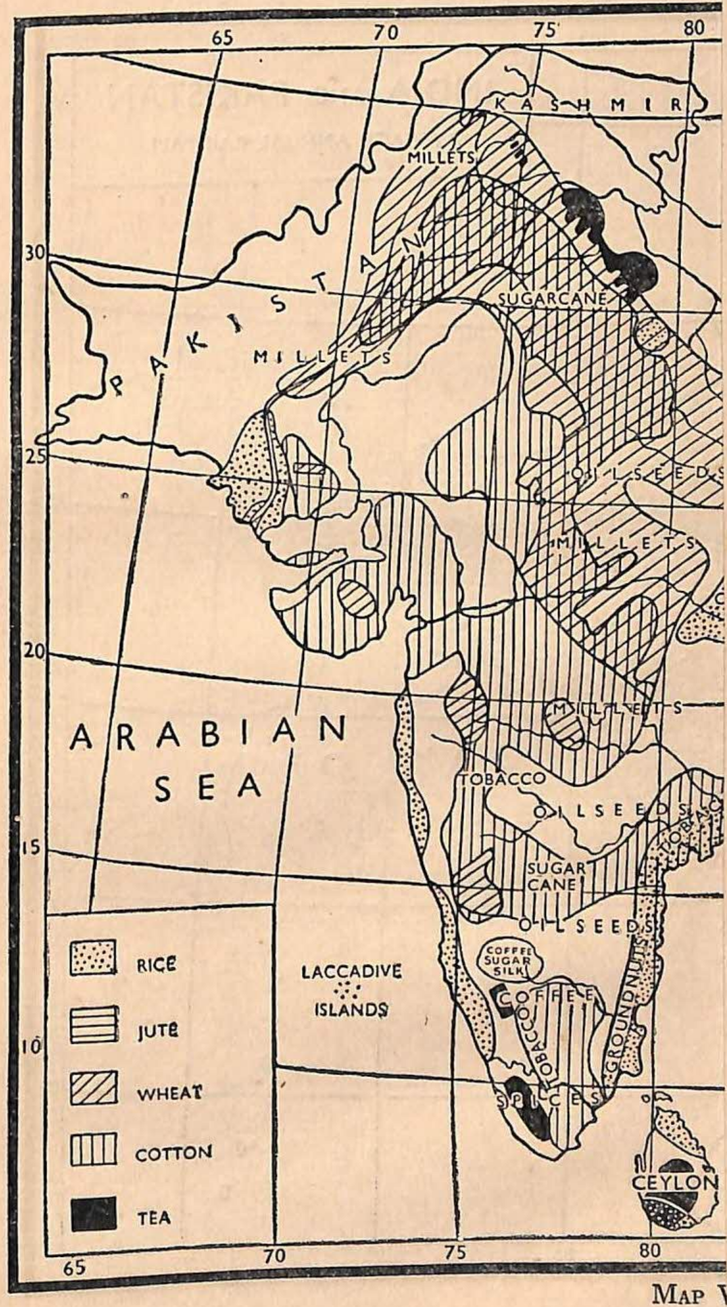
STATE AID TO AGRICULTURE

The Government in India has for a long time recognized the need for improving agriculture and of bettering the lot of the Indian peasant. To this

What is required is an organized and sustained effort by all those departments (e.g. the Revenue, Forest, Agricultural, Co-operative, Educational, Public Health, Industries and Public Works Departments) whose activities touch the lives of the rural population. The sympathy, interest and active support of the general public are also essential. Mere isolated efforts by a few enthusiastic and high-minded officials like Mr F. L. Brayne, I.C.S. (whose name is associated with the famous experiment in rural uplift in the Gurgaon District of the Punjab) cannot achieve any permanent results. A widespread campaign for rural uplift has recently been started in many provinces in India especially after the assumption of office by the Congress Party about the middle of 1937. Special mention may be made of the scheme of village uplift initiated in Bombay in 1933 by Sir Frederick Sykes as Governor of Bombay. The scheme is based on the co-operation between officials and non-officials working through a series of village, taluka and district committees. Agricultural improvement, rural industries, rural sanitation, education, housing and rural amenities are the main objectives of the scheme. A further big step forward was taken by the Congress Ministry of Bombay in 1939. The Registrar of Co-operative Societies and Director of Rural Development was placed in charge of village uplift activities which were in due course expected to reach every village under the guidance of specially trained men. The Government of India also interested itself in the countrywide movement for rural reconstruction and made grants to the provinces of over two and a half crores of rupees for village uplift made during the years 1935-7. We may here point out that although the efforts now being made for village uplift deserve nothing but praise, the rural problem cannot be solved by itself. A simultaneous effort to promote the industrial and general economic development of the country is also necessary.

LAND REVENUE IN BRITISH INDIA

§29. **Land revenue history.**—(i) *Hindu period.* From very ancient times the State in India has claimed a share of the produce of the soil from the cultivators. According to the *Laws of Manu* the king was entitled to receive one-sixth of the gross produce, i.e. of the grain heap on the threshing-floor, and a higher proportion (one-fourth) in times of war and emergencies. Land revenue was paid in kind, but payments in money were gradually introduced, especially after the establishment of Muslim kingdoms.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KASHMIR
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COFFEE SUGAR SILK
COFFEE
TOBACCO
GROUNDNUTS
SPICES
LACCADIVE ISLANDS
CEYLON
30
25
20
15
10
RICE
JUTE
WHEAT
COTTON
TEA

Map V

end Departments of Agriculture were started in 1884 in the various provinces under Directors of Agriculture assisted by Deputy-Directors and Inspectors. Agricultural Colleges were also started at Poona, Cawnpore, Nagpur, Lyallpur, and Coimbatore. The biggest step forward was taken in 1929 on the recommendation of the Agricultural Commission by establishing the Imperial Council of Agricultural Research, which during the first six years of its existence spent a crore of rupees in promoting useful research in agriculture and in the solution of the veterinary problems connected with the improvement of Indian agriculture.

The Agricultural Departments carry on experiments on agricultural farms, organize propaganda work to demonstrate the value of new methods and implements, and control agricultural education.

The Indian agriculturist did not benefit by the war. Indeed his lot was adversely affected owing to the loss of the Continental and Japanese markets. On the other hand there is still a shortage of food-grains in the country; hence the 'grow more food' campaign.

Lastly, a comprehensive and well-sustained effort is necessary to bring about *village uplift*, which means better educational and sanitary facilities, improved communications and, in general, a higher standard of amenities and civic life in rural areas. Various State Governments have set on foot schemes of village uplift, which are being actively encouraged by the Union Government.

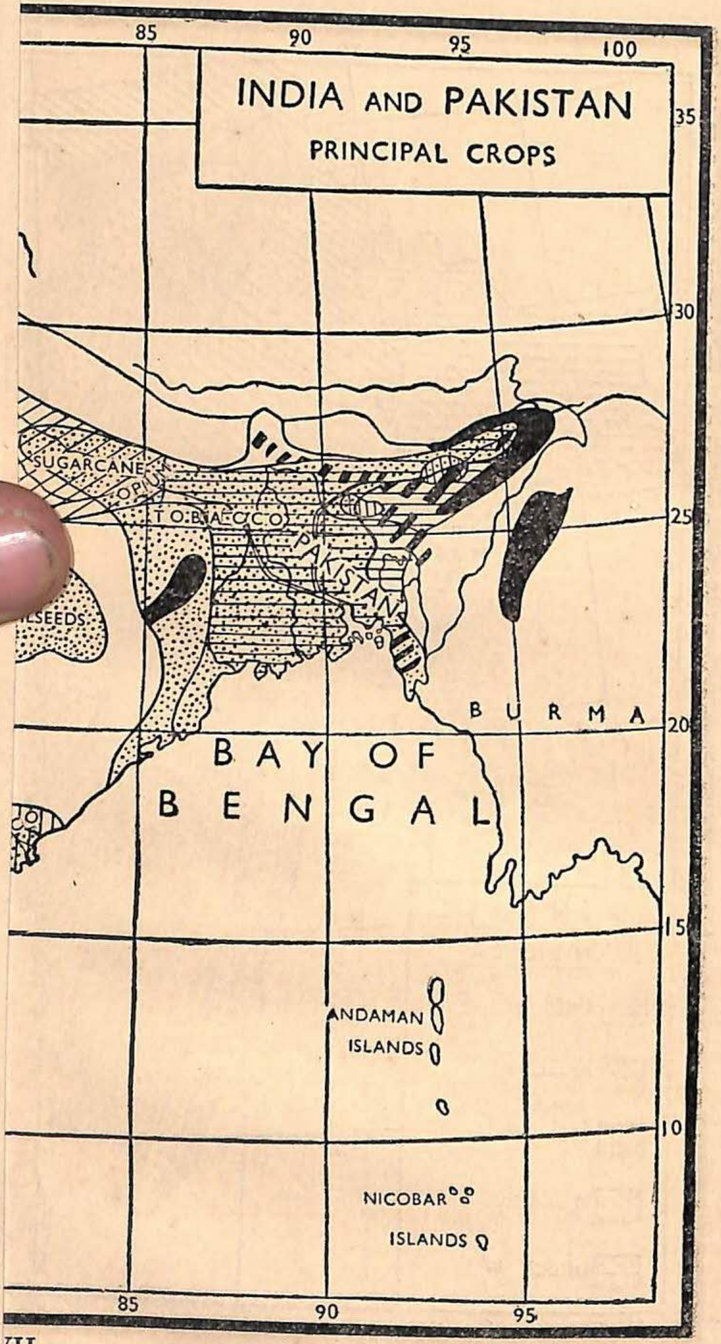
LAND REVENUE IN BRITISH INDIA

From time immemorial, the State in India has claimed a share of the produce of the soil from the cultivators. Land revenue was at first paid in kind but came gradually to be paid in money, especially under the Moguls, who also introduced systematic Land Revenue Settlements. This system however fell into disorder after the break-up of the Mogul Empire, when revenue-farming was introduced. This resulted in the subordination of peasant rights to those of the new usurpers who became zamindars, as in Bengal. After several experiments and mistakes, the British administration in India evolved a workable land revenue system. The early policy of Permanent Settlement, which was introduced in Bengal, Benares and North Madras, was supplanted by Temporary Settlements elsewhere. *The Permanent Settlement* has serious drawbacks, such as a rigidly fixed land revenue involving loss to the Government. Its main advantage, namely that it acts as a stimulus to agricultural improvements, can very well be secured by long-term settlements.

There are three main kinds of settlement in India: (i) *the Zamindari Settlement* with landlords, (ii) *the Mahalwari Settlement* with village communities and (iii) *Ryotwari Settlement* with individual occupants or holders of land. In (i) and (ii), where the land revenue is not fixed in perpetuity (as in Bengal) the basis of assessment is rental value, the theoretical maximum claimed by the Government being one half of the rental value. In the Punjab, it is now one-fourth. In the ryotwari system of Madras the basis of assessment is the net produce, while in Bombay general economic considerations take the place of a theoretical basis, although in recent years greater reliance is being placed on rental value.

There are certain controversial questions relating to land revenue in India. One of them is whether the *land belongs to the State* or is the *private property* of the zamindar or ryot. The case for the latter view is pretty strong, and the Government would be well advised frankly to recognize private property in land. The second controversial question is whether land revenue is a *tax* or *rent*. As the Taxation Enquiry Committee pointed out, it should be regarded as a tax. In this connexion, a third question has been raised, namely, how far the land revenue taken in India conforms to the Ricardian theory of economic rent. It will be found on examination that land revenue in India cannot be identified with economic rent.

There is a strong case for lowering the land revenue and fixing it at about one-fourth of the annual value of the land. It is also very desirable to place the process of revising the assessment under legislative control.



INDIA AND PAKISTAN

PRINCIPAL CROPS

VII

(ii) *Mogul period.*—The Moguls did not introduce any fundamental changes in the ancient revenue system of the Hindus, but merely reduced the Hindu customs to a coherent system and introduced regular records and revenue accounts. In this connexion special mention may be made of the famous settlement made under Akbar by his able finance minister, Todar Mal. Land was carefully measured and divided into four classes, the Government's share being fixed at one-third of the gross produce. The term of the settlement was fixed at nine years. Similar developments took place in the Deccan.

An important and unfortunate change in the land revenue system and tenure was introduced by the appearance of *revenue farming* in the declining days of the Mogul Empire. Under this system, the task of collecting revenues was assigned or farmed to certain contractors (revenue farmers) who paid to the Government nine-tenths of the whole collections and kept the rest as their remuneration. Gradually these contractors consolidated their position and acquired superior hereditary rights to land. The actual cultivators were much oppressed under this system, and the net result was seen in the increasing complexity of land tenures and rights, and departure from the former revenue practices, more particularly in Bengal, where the revenue farmers assumed zamindari rights.

(iii) *British period.*—The task of the British administrators was thus made difficult, and at first mistakes were made. Many years had to pass before a tolerable system was evolved for the various provinces. The early confusion was worse confounded after the grant of Diwani in 1765 to the East India Company owing to Clive's Dual Government system. This was abolished in 1772, and after several experiments the famous Permanent Settlement of Bengal was introduced in 1793 by Lord Cornwallis. The zamindars were recognized as landlords and the State demand on them was fixed in perpetuity. The results of the new settlement were not very happy. At first zamindars were unable to pay the heavy State demand for revenue, and the tenants were greatly oppressed. Laws had to be passed in 1859 and 1885 protecting the rights of the tenants and preventing their being rack-rented and evicted arbitrarily from their holdings. The early policy of Permanent Settlement, which was extended to Benares in 1795 and to certain parts of North Madras, was soon afterwards (1820) abandoned. Subsequent land settlements in the various provinces in India were thus effected on a temporary

IV

INDUSTRIAL DEVELOPMENT

GENERAL SURVEY

§1. **Benefits of industrial development.**—In these days we are all very keen that our country should become an important industrial nation because we expect to realize great benefits from such a development:

(i) An adequate development of industries will make for a more even distribution of population among a variety of occupations and make the economic system more stable. For example, frequent failure of rains, and the famines to which we are subject, will not directly affect practically the whole population as they do at present, but only that part of it which is engaged in agriculture.

(ii) Industrialization, if properly directed, will enrich the nation.

(iii) The State will benefit because of the increased taxable capacity of the people. State finance will also be more elastic because industrialization will make possible a number of productive taxes on other kinds of income than landed income.

(iv) Industry will give scope for a diversity of aptitudes and talents and will make the people more intelligent, alert and progressive. A predominantly agricultural country tends to be too conservative and intellectually inert.

(v) Industrialization will open a number of new sources of employment and should to a large extent solve the problem of middle-class unemployment.

(vi) It will also create a habit of productive investment and discourage hoarding.

(vii) It is now widely recognized that industrialization has an important bearing on military efficiency.

§2. **Principal landmarks in the recent industrial history of India.**—Till about the beginning of the nineteenth century, India could be described as both an agricultural and a manufacturing country. As in Europe before the Industrial Revolution, the industries in India were of course not of the modern large-scale type but were cottage industries. However, a very much larger proportion of the population than at present was engaged in industry, and India could stand comparison with any

European country as regards industrial development and skill. In fact she could legitimately claim superiority in this respect over many European countries. We have already indicated the reasons why India fell from this high estate and came to be an almost exclusively agricultural country.[1] From many points of view this was a deplorable development, and the Famine Commissions of 1880 and 1901 emphasized forcibly the necessity of industrializing India as one of the important means of meeting the problem of recurring famines in the country. The swadeshi movement which began in 1905 served to drive home the lesson that for modern industry a more solid foundation was necessary than short-lived political enthusiasm, and that vigorous and consistent State help was essential to provide this foundation.

§3. **Industrial policy of the State.**—Till the end of the nineteenth century Government policy was unhelpful and indifferent. The first sign of a change was noticed when, at the instance of Lord Curzon, a separate Imperial Department of Commerce and Industries was created in 1905. This welcome development, however, received a sudden check when in 1910 Lord Morley, the then Secretary of State for India, sent his famous Dispatch deprecating any direct attempts on the part of the Government to foster industrial development. The Indian authorities followed Lord Morley's dictates too literally and too conscientiously and failed to turn to any practical account the enthusiasm for industrial regeneration which characterized the swadeshi movement.

The experience of the war of 1914-18 made the Government realize, more vividly than before, not only the economic but also the military importance of industrialization. As the Montagu-Chelmsford Report puts it: 'Nowadays, the products of an industrially-developed community coincide so nearly in kind, though not in quantity, with the catalogue of munitions of war that the development of India's natural resources becomes a matter of almost military necessity.' The Industrial Commission appointed in 1916 stressed the importance of active Government assistance in furthering the industrial development of the country and making it more self-sufficient.

The Indian Munitions Board established in 1917, although its main business was to control and develop Indian resources so as to assist in the successful prosecution of the war, incidentally stimulated the development of Indian industries by placing large orders with Indian firms, supplying information and expert advice, and in other ways. A similar development occurred during the Second World War.

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[1] See ch. ii, §8.

PROTECTION AND OTHER MEASURES OF STATE AID

§4. **Protection in India.**—A large part of the stimulus received by Indian industries during the war of 1914-18 was necessarily temporary in character. After the war, foreign competition began again and the question of protection assumed serious practical importance. The Fiscal Commission appointed in 1921 recommended the adoption of a policy of *discriminate protection* to be interpreted by an expert Tariff Board. The Government accepted this recommendation in 1923, and since 1924, under instructions from the Government, the claims of a number of industries for receiving protection were examined by a Tariff Board constituted for the purpose from time to time and protection was extended to the iron and steel, cotton, paper, sugar, salt, match and other industries.

The term 'discriminate protection' suggests that we must discriminate between those industries which with some initial assistance (in the form of protection from foreign competition), are likely to develop sufficient strength to be able ultimately to stand on their own legs, and industries incapable of such development. We have already explained in what circumstances and subject to what safeguards the policy of protection can be pursued in the interests of a nation.[1] Discriminate protection in India was merely an application of these principles to Indian conditions. However, Government were accused, not without reason, of excessive rigidity and strictness in applying these principles.

§5. **Essentials other than protection.**—Protection alone is not enough to bring into existence flourishing and efficient industries. There must also be an adequate development of certain indispensable adjuncts of modern economic life like a sound banking organization, a well-developed system of transport, a sympathetic railway and shipping policy, an effective marketing organization, an efficient system of commercial and industrial intelligence, etc. These matters will be dealt with separately in Chapters V and VI.

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[1] See our *Elementary Principles of Economics*, 6th ed., ch. xii, §§9-10.

Quite as essential as anything else for industrial development is that the *people must really and truly desire it*, and show the genuineness of their desire by taking the necessary pains to achieve it. There must be less apathy and more self-confidence and enterprise. The lack of these qualities at present is largely due to our defective system of education, which is much too academic and out of touch with reality. We must train our own skilled labourers and supervisors and foremen instead of incurring excessive expenditure on men imported from abroad. *Technical and commercial institutes and colleges* must be started in large numbers to afford the necessary facilities for training managers and to enable capable business men to discover and develop their special talents. The organization of research is another important matter to be attended to. The present position in all these respects is unsatisfactory.

The extension of *Government patronage* to the products of Indian industries is a useful stimulus to their development and this is now forthcoming in a steadily increasing measure through a special department called the Indian Stores Department.

The provincial *Departments of Industries*, which were created in accordance with the recommendations of the Industrial Commission, aim at the promotion of technical and industrial education, the supply of industrial information and financial and other assistance to industries. Special State Aid to Industries Acts have been passed in order that suitable private enterprises might be financed. In practice, however, it is the cottage industries that have received more help from these Acts than large-scale industries. A more ambitious scheme of state-aided industrial credit corporations was adopted in the United Provinces and Bengal in 1937.

§6. **Industrial development of India during the war.**—The second world war, like the war of 1914-18, gave considerable stimulus to the development of Indian industries. The curtailment and restriction of imports, the increased demand from the Commonwealth for war materials and India's own defence requirements, the assurance given by the Government of India to extend protection against unfair competition from outside to industries created to meet war requirements are some of the factors which stimulated the development of Indian industries.

At the same time the development of Indian industry has to reckon with certain handicaps, such as dependence on foreign supplies of machinery, accessories, etc., lack of heavy chemicals, shortage of experts and technicians, shortage of shipping facilities for developing export markets, etc.

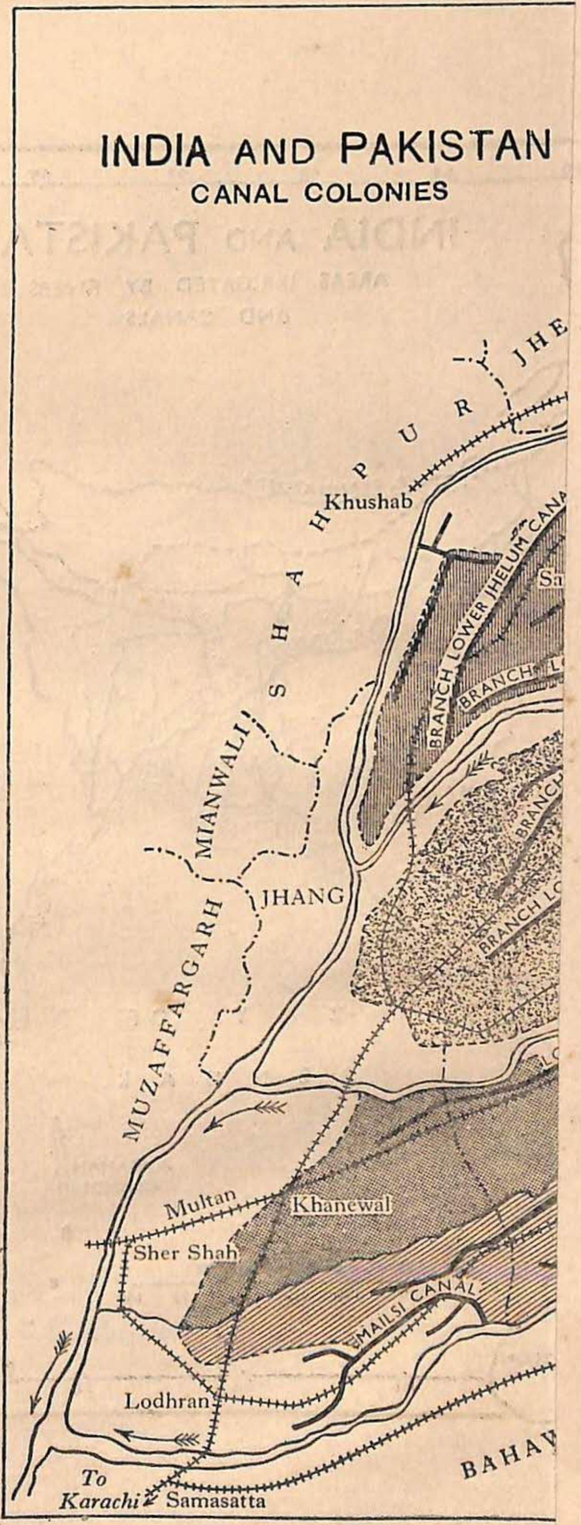
The recommendations made by the American Technical Mission (1942) were intended to remove some of these handicaps and deficiencies in the existing industrial structure of India. Among the industries benefited, mention may be made of large old organized industries such as the iron and steel, jute mill, cotton mill, leather and tanning, woollen, paper and cement industries. Of special interest to India at present are the new large-scale industries—such as aircraft, shipbuilding and aluminium—which are now beginning to make progress.

INDIAN INDUSTRIES

§7. **Industrial progress in India.**—Indian industries may be divided into two classes: (i) Cottage industries carried on in the home of the worker, and (ii) Organized industries of the new type carried on in workshops and factories, with which we will deal first, beginning with a short account of the principal modern industries developed in India. (See Map X.)

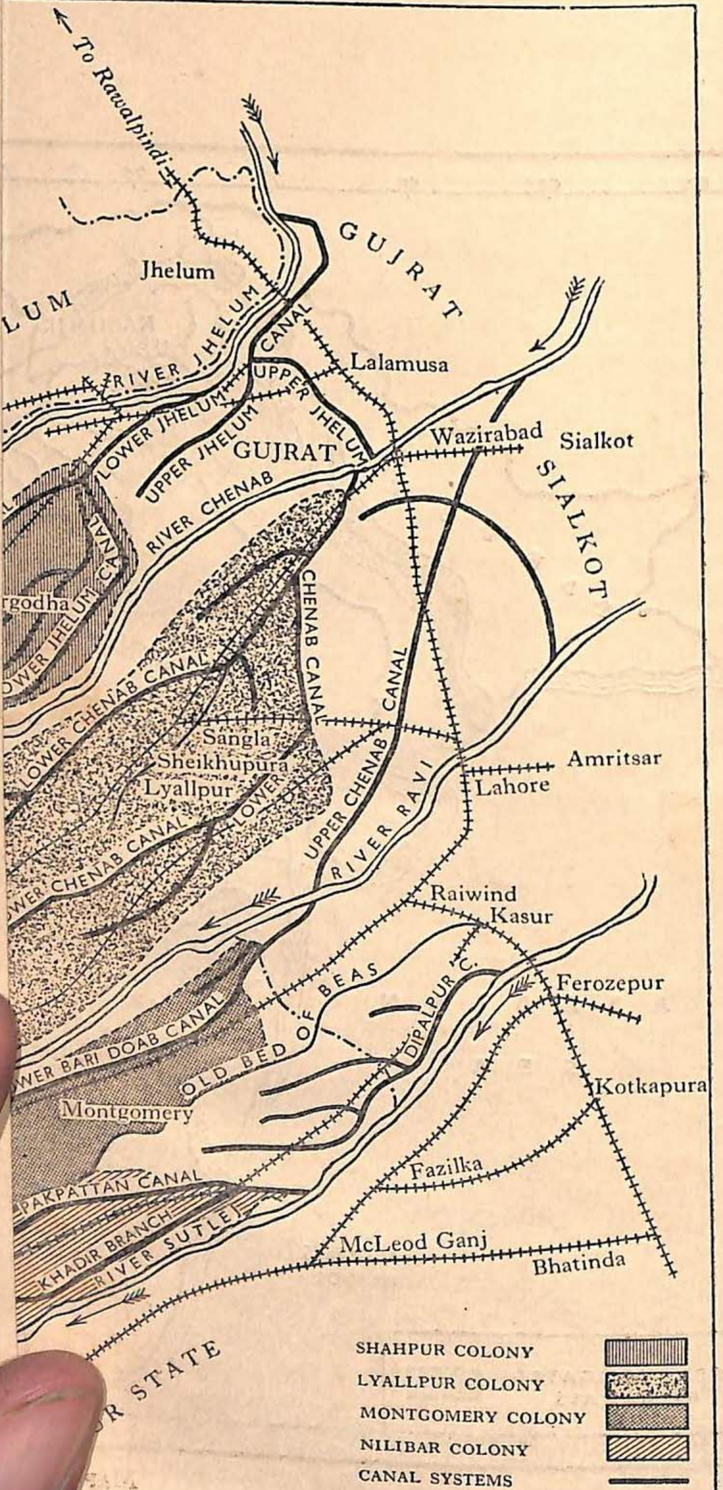
The following statistics give some idea of the advance in industrialization made by India. According to the returns of Indian factories subject to the Indian Factories Act, the total number of factories in 1939 was 11,630 and the total number of persons employed 1,751,137. The total number of joint-stock companies registered in India was 11,372 with a paid-up capital of Rs. 304 crores in 1939-40, as compared with 2,545 companies with a paid-up capital of Rs. 81 crores in 1914-15. The total number of companies registered elsewhere than in India but working in India was 870 with a paid-up capital of £745 million in 1938-9, as compared with 517 companies with a paid-up capital of £298 million in 1914-15. Although the above figures show some progress in industrialization in India, organized industries, as yet play too small a part in the national economy as indicated by the fact that the population engaged in modern industry is only about 1.5% of the total population of the country.

§8. **The cotton mill industry.**—Among the large-scale industries owned and managed by Indians the cotton mill industry leads easily. It was started at first in Bombay about the middle of the last century, and even today Bombay continues to be its leading centre. In later years, and especially in recent years,



INDIA AND PAKISTAN
CANAL COLONIES

Taken from M. L. Darling's *The Punjab Peasan*



n Prosperity and Debt, by kind permission of the author

MAP IX

up-country centres like Ahmedabad, Sholapur, Hubli and Nagpur have rapidly developed owing to their situation in the heart of the cotton-producing tracts and their access to extensive up-country markets and plentiful labour supplies. Until the beginning of the present century the industry was mainly a spinning industry, but owing to the loss of the Chinese market for India's mill-made yarn, the weaving branch greatly advanced, and at present there is a tendency to increase the manufacture of finer counts, an appreciable amount of long staple cotton being imported from the U.S.A., East Africa and elsewhere for this purpose. In spite of occasional setbacks due to famine, plague, foreign competition, fluctuations in foreign exchange and high prices of cotton, the industry has continued to expand. The world war of 1914-18 gave it considerable stimulus owing to decreased foreign imports and Government patronage in respect of military requirements in cotton goods. The swadeshi movement has also been helpful to its growth. On the other hand, from 1930-40 the industry suffered from trade depression and excessive competition from Japan in Indian markets. The Indian industry has however been able largely to overcome these difficulties with the help of the protection it has enjoyed since 1927. Japanese competition was further regulated since 1934 by the Indo-Japanese Trade Agreement of 1933-4, renewed in 1937 up to March 1940. The cotton mill industry considerably benefited by large war orders.

The total number of cotton mills in India was 388 and the number of persons employed 4·30 lakhs in 1940, as compared with 271 mills and 2·60 lakhs employed in 1914, and 193 mills and 1·61 lakhs employed in 1900. The number of mills in 1877 was only 51. The total mill production of cotton piece-goods was 4,012 million yards, and imports 579 million yards in 1939-40, as compared with a total mill production of 678 million yards and imports of 2,288 million yards in 1904-5. Foreign imports have thus been substantially reduced. The peak figure for production (4,726 million yards) was reached in 1944-5. Since then, for various reasons, production has fallen off to some extent. Allowing for hand-loom production, which contributes nearly 25% of the total cloth consumed in India, home production is now able to meet the greater part of the total demand for cloth in India. In 1935, on the recommendation of the Tariff Board, the protective duty on imports from Lancashire was reduced from 25% to 20% ad valorem. In 1939 it was further reduced under the revised Indo-British Trade Agreement. Besides protection, internal reform is necessary to place the cotton mill industry on a sound footing. In the first place, the Managing Agency system, though now regulated by law,[1] requires further improvement, and in the second place, the industry must intensify its efforts to explore export markets for its products.

§9. **The jute mill industry.**—Another well-developed large-scale industry in India is the jute mill industry which came into existence in Bengal in 1855, when the first mill was started near Serampore. The progress of the industry was slow during the first thirty years, and the export trade in jute manufactures was negligible. The war of 1914-18 led to a considerable expansion and to the prosperity of the industry, which was called upon to meet the demand in the various theatres of war for sand-bags for trenches, etc. For many years Dundee (in Scotland) was the principal centre of jute manufacture. Calcutta, however, now holds a commanding position in the manufacture and trade of jute. In 1937-8 there were 105 jute mills at work, the number of persons employed being 308,700 as against the average of 21 mills and 38,800 persons employed in the period from 1879-80 to 1883-4. The industry is at present passing through a difficult time owing to the deterioration of India's relations with Pakistan, which is the main source of raw jute.

The jute industry enjoys certain advantages over the cotton mill industry. For example, the organization of the industry is more efficient. Unlike the cotton mill industry, the jute industry is highly centralized, the great majority of mills being within a radius of 40 miles from Calcutta.

The jute industry did not escape the adverse effects of the world economic depression of 1929-32, to meet which the Jute Mills Association took steps to restrict output. Although a certain recovery in the exports of jute manufactures, which consist mainly of gunny bags and hessian cloth, took place, the industry was doing none too well before the outbreak of the 1939-45 war. The war however transformed the depression in the industry into a boom, thanks to the feverish overseas demand for all sorts of jute goods. At present, however, the jute industry is passing through difficult times. Between two-thirds and three-quarters of its requirements of raw material have to be drawn from Pakistan. Also owing to increase in wages and other costs, prices of the manufactured goods have risen causing almost a crisis in foreign markets. The industry is thus in urgent need of drastic reorganization and re-equipment with a view to more efficient and economic production.

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[1] The Indian Companies Act (1936) seeks to remove many of the evils of the managing agency system.

§10. **Iron and steel industry.**—This is a basic or key industry, and its national importance is great. Its development is of recent date. The Barakar Iron Works, started in 1874 on the Jharia coal-fields in Bengal and acquired in 1889 by the Bengal Steel and Iron Company, was the successful pioneer in this new field of India's industrial development. The next important stage in the history of the industry was ushered in by the formation of the Tata Iron and Steel Company, which was established at Sakchi in 1907 and began work in 1911. The war-time (1914-18) requirements of the Government stimulated further progress, and a large scheme of extension was completed in 1924. In the same year protection against foreign competition was granted to the steel and iron industry as recommended by the Tariff Board. It was renewed in 1927 and 1934. Under this new stimulus, the industry has made striking progress. India is now self-sufficient regarding pig iron. The production of finished steel also has made considerable headway, the total quantity produced being 1,070,000 tons in 1939-40 as compared with 139,433 tons in 1916-17. In 1949, the production of steel was about 934,000 tons. The steel and iron industry made further progress during the 1939-45 war.

Sakchi (renamed Jamshedpur) has become a veritable beehive of allied industries, like the tin-plate, wire and nails, railway wagons, heavy chemicals and other industries. In view of the great natural advantages of rich and abundant iron-ore deposits[1] near coal-fields and adequate supplies of other raw materials, and a large and expanding home market, the future of the industry should be bright.

§11. **Tanning and leather industries.**—The indigenous tanning industry is an old one in this country. A large supply of hides and skins (cow-hides, goat-skins, buffalo-hides and sheep-skins), which may be regarded as the by-products of agriculture, are produced annually. These were largely exported to Germany, Austria and the U.S.A. in the past, and even today are not fully utilized at home. European methods of tanning were first introduced by the military authorities for harness and other military requirements. A Government (harness and saddles) factory was set up at Cawnpore in 1860. Private factories followed, and Cawnpore has thus become the main centre of the leather trade in India. Since then other centres like Bombay and Madras have also shown considerable progress. The tanning and leather industry experienced great prosperity and stimulus during the wars of 1914-18 and 1939-45, owing to the large quantities of army boots and shoes required. The industry is deserving of encouragement by protection. There is also considerable scope yet for internal improvement.

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[1] See ch. i, §9(ii).

§12. **Chemical industries.**—The development of chemical industries, especially heavy chemicals like sulphuric and hydrochloric acid, is essential for the general economic development of a modern country. These basic industries are as yet poorly developed in India and large foreign imports are necessary. India's sources of raw materials for heavy chemicals should not be deficient if only the various mineral ores were properly treated. Striking success has, in fact, been achieved in the manufacture of sulphuric acid—a key industry for all chemical industries—and soda ash. Protection, as recommended by the Tariff Board, was granted to the industry in 1931 until 31 March 1933. Since then it has been continued only in the case of magnesium chloride. Both world wars stimulated the country's chemical industries and, particularly during 1939-45, they have experienced expansion and diversification. Drugs and medicines are already being manufactured in the country.

§13. **Paper-making.**—The modern paper industry of India dates from 1870, when the Bally Mills were established on the Hooghly, whose neighbourhood is still the principal centre of the industry. The Titaghur Paper Mills were established in 1882. In 1938-9, there were 13 paper mills in India, for which the 1939-45 war provided an era of prosperity owing to the drastic curtailment of imports and sharp rise in the price of paper. Several new concerns have recently been floated. *Sabai* grass, which grows abundantly in northern India, is the principal raw material used, although the Indian Paper Pulp Company makes paper from bamboo pulp. This development is full of promise. Under the Bamboo Paper Industry (Protection) Act of 1925 renewed in 1932 and 1939, the industry has had the benefit of protection. The Indian production of paper amounted to 103,884 tons in 1944 as against 48,531 tons in 1938.

§14. **Other industries.**—Mention may be made of two industries, namely the sugar and match industries, which have rapidly expanded in recent years under the stimulus given by protection.

The cement industry has also shown remarkable expansion since the war of 1914-18 and received further stimulus during the 1939-45 war. The total production of Portland cement, which is comparable as regards quality with the British product, increased from 945 tons in 1914 to 593,000 tons in 1932-3. In 1937-8 it had nearly doubled. Imports are now negligible.

Other industries which have made some progress and give promise of further development are the oil-milling industry, glass manufacture, the printing ink and silk industries. The paint industry has also expanded considerably since it was started in Sibpur, on the Hooghly, in 1902. It is still mainly concentrated in Calcutta, but factories exist in Bombay and Madras. Reference has already been made to the coal, the petroleum oil, and tea industries; as also to new industries started during the 1939-45 war such as the aluminium industry, the aircraft and the shipbuilding industries. A number of flour mills, rice mills, cotton gins and presses, railway workshops, and tile and brick factories are scattered throughout the country.

§15. **Survival of cottage industries.**—Competition of machine-made goods has already been fatal to some of our old cottage industries. Where new methods constitute a definite advance on the old methods, they must be introduced. But some kind of planned orderly retreat should be made possible for those engaged in the old type of cottage industry—even if this retards industrialization to some extent. In this part of our subject we shall however be concerned not with old industries which must sooner or later succumb, but with those which have it in them to survive and prosper even under modern conditions. Those industries which require simple tools and which are closely connected with agriculture have generally nothing to fear from factory goods. There are also cases where the artisans have successfully adapted themselves to the new conditions and have learnt to use superior raw materials and better tools. 'The weaver has taken to the mill yarn, the dyer to synthetic dyes, the brass- and copper-smith to sheet metal, the blacksmith to iron rolled in convenient sections, in each case with advantage to himself from lessened cost of production which has greatly extended his market. In some districts in Lower Bengal, the weavers use the fly-shuttle slay extensively, and it is gradually coming into use elsewhere also. The tailors invariably employ sewing machines, and town artisans readily take to improved tools of European and American manufacture.'[1] In some cases the goods produced are such that they do not admit of the employment of machinery and large-scale production. Proximity to the market and a more intimate knowledge of the consumer's wants may further turn the scale in favour of the cottage worker. 'Thus some kinds of head-wear, *dhotis* and *saris* made by the hand-loom weavers have not been displaced by modern factories. The weavers of Dacca, Murshidabad, Madura and Benares, those engaged in making embroideries in Lucknow and Delhi and lace in Surat supply commodities for which the demand in the country has not been seriously affected by competition with similar machine-made articles. The metal worker, the shoemaker, the goldsmith, the tailor, the confectioner, and other craftsmen fall into the same category and are similarly protected.'[2] Workers in the various cottage industries are still vastly more numerous than those engaged in organized industries. The problem of properly fitting in cottage industries alongside of large-scale industries in the future scheme of industrialization of the country has assumed considerable importance in connexion with the policy of industrial planning for India favoured by the Congress Party. It came further into prominence in connexion with the war-production programme in the execution of which the cottage industries, like the cotton and woollen hand-loom industries, played a part of no mean value.

We shall now examine the position of some of the most important cottage industries.

§16. **The cotton hand-loom industry.**—Hand-weaving still provides subsistence for about six million people. The position of the hand-weaver is strong in the case of goods which are either very coarse or refined and artistic, because here he can hold his own against machinery. The hand-loom supplies nearly 25% of the total demand for cloth in India. Since about 1922, the weaver has suffered severely from foreign (especially Japanese) competition as well as the competition of Indian mills. While a certain amount of textile production was diverted from the overworked mills in India to the hand-loom during the 1939-45 war, the hand-loom weaver has had to reckon with shortage of yarn and high prices.

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[1] *Industrial Commission Report*, §255.

[2] *India in* 1926-7, p. 330.

§17. **The woollen industry.**—Under the Moguls, the manufacture of woollen carpets reached a high pitch of excellence. Carpet-weaving at the present time depends almost entirely on foreign demand, which absorbs about 90% of the total production. The industry is in a languishing condition on account of the ignorance and poverty of the weavers and the absence of organization.

Another woollen manufacture that is widely produced in the country is the coarse rough blanket (*kambli*). Many shepherds and agriculturists pursue it as a part-time occupation. Having regard to the facility with which the raw materials can be obtained in every part of the country, and the big size of the home market, the industry has possibilities which deserve to be carefully examined. World war II gave a big stimulus to the hand-loom woollen industry which was called upon to supply large quantities of blankets to the army.

§18. **Sericulture and silk manufactures.**—Sericulture is practised more or less successfully in Bengal, Kashmir and Mysore, and wild silk is produced in Madhya Pradesh, Bihar, and Assam. Both sericulture and silk-weaving have remained in a depressed condition owing to competition, largely from Japan, China and the United States. Most of the silk now exported is in the form of waste or cocoons, because reeling is done so badly in India. The Indian weavers themselves prefer the more even re-reeled Chinese or Japanese silk to the home-made product. Efforts are being made, especially in Bengal, to improve the quality of Indian silk. The Agricultural Department in that province runs two sericultural schools. A large number of seed farms have also been started. The students trained at the Government schools are given awards and are provided with 'seed stocks' from Government nurseries. Attempts are also being made in Assam, Mysore, and Kashmir to encourage sericulture. Substantial grants have been allotted to various states to enable them to set up schemes for the benefit of sericulture. The manufacture of silk goods would seem to enjoy certain special advantages in India and ought to succeed. Large-scale production is more difficult than in the case of cotton, and has hardly yet made a beginning in India. Again, silk manufactures being of a luxury nature admit of a great diversity in workmanship, which makes them eminently suitable as cottage industries. There is also a heavy import duty on foreign manufactures. The 1939-45 war stimulated the silk industry which was called upon to supply silk cloth for making parachutes.

§19. **Other cottage industries.**—The present position of some of our village industries has already been discussed in Chapter II. We have also discussed the question of industries subsidiary to agriculture. There are numerous other cottage industries such as the making of furniture, metal and cutlery, gold and silver thread, pottery, soap, beads and embroidery work. The policy to be followed with regard to each of them must depend upon the results of detailed investigation.

§20. **Methods of aid to cottage industries.**—The first step is to decide which of the old cottage industries have a chance of prospering under present conditions and to consider whether any new industries could with advantage be started. The next step is to consider means to help the small artisan to establish himself firmly and securely. Suitable provision for manual training and instruction in crafts is an obvious necessity. Special industrial schools like the weaving schools in Bombay state should be established. The question of making available cheap raw materials of good quality and introducing more efficient tools and implements by practical demonstrations and otherwise should receive proper attention. Assistance could also be rendered in the form of technical advice and by giving the artisans new patterns and designs likely to be popular. An attempt must be made to provide the handicraftsmen with the requisite capital through co-operative credit societies and perhaps also through industrial banks. Quite as important as anything else is an effective marketing organization. The establishment of Provincial Marketing Boards, licensed ware-houses, and co-operative wholesale depots should also help. In Bombay, Co-operative Industrial District Associations have been established at important centres for facilitating the sale of hand-loom products. Several states have passed State Aid to Industries Acts to enable their Governments to encourage suitable cottage and other industries. A sum of Rs. 5,75,000 was allotted by the Government of India to the Provincial Governments from November 1934 to March 1936. With the assistance of these funds various schemes for the development of the hand-loom weaving industry have been started. The holding of periodic exhibitions, the creation of permanent museums, a special state-aid organization for the purpose of financing the cottage-workers and a liberal store-purchase policy in relation to cottage industries are some of the methods of encouraging cottage industries.

According to the Fiscal Commission (1949-50) the rural industries that can be most economically developed are primarily those that depend on the produce of agriculture (including forests) and the manufacture of utility articles of common consumption that do not call for intensive physical effort or the exercise of a high degree of skill or complicated technical processes. The Commission recommended state initiative and assistance for the promotion of cottage and small-scale industries and the establishment of a statutory corporation in each state to be in charge of the measures to be adopted for stimulating the growth of cottage and small-scale industries.

INDUSTRIAL LABOUR

§21. **Migratory character of Indian labour.**—We must now discuss certain important questions relating to industrial labour in India. The factory labourers in India do not constitute a wage-earning class exactly corresponding to the factory labourers in Western countries. In those countries, the labourers form a permanent class of purely industrial workers, with no agricultural interests or attachments. The Indian factory operative on the other hand generally comes from a village and he always maintains his connexion with the village where he has his home and his bit of land and his family looking after it. From time to time he visits his village, and even if he is not able to go as often as he would like to, he returns almost invariably after his superannuation. He goes to the city because he must. He finds it more and more difficult to make a living in the village. 'The city, as such, has no attraction for him . . . Few industrial workers would remain in industry if they could secure sufficient food and clothing in the village; they are pushed, not pulled, to the city.'[1] The fact that the labourer does not develop any permanent interest in his employment in the city is a source of weakness in many ways. All the same, the Labour Commission has expressed the view that in the present circumstances the link with the village must be regarded as a distinct asset and that the aim should be not to weaken it but rather to strengthen and regularize it.

§22. **Scarcity of labour.**—Complaints are sometimes heard that there is scarcity of labour in India. This is true so far as the supply of skilled labour is concerned, and we have already indicated the remedies to be adopted in this connexion. For the rest, owing to increasing pressure on agricultural land in the village combined with the growing facilities for travel and communication, more and more people from the countryside are showing a willingness to migrate to cities to avail themselves of whatever opportunities may be there for securing employment.

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[1] *Labour* (Whitley) *Commission Report*, p. 4.

The position in this respect would be further improved if labour were recruited directly by the mill managers instead of through middlemen or jobbers. The jobber, because he is instrumental in securing employment, comes to acquire great power over the ignorant and often helpless worker, and generally abuses it. More and more factory owners are now giving their attention to the question of direct recruitment.

§23. **Labour legislation in India.**—In order to attract workers and make them contented and efficient, conditions of life and labour in the cities must be made more tolerable. This is a matter which can only be dealt with satisfactorily by legislation, and now the law tries in various ways to make things easier for the workman. The *Factories Act* of 1934[1] prescribes a daily as well as a weekly limit to the hours of work in factories—the daily limit being 10 hours and the weekly limit 54 hours in all 'perennial' factories. Children are not to work for more than 5 hours per day. The Act also provides for rest intervals and a weekly holiday. The law also insists on certain conditions with regard to ventilation, light and temperature being observed to secure operatives against danger to health or serious discomfort.

Under the Bombay Shops and Commercial Establishments Act (1939) hours of work in shops, commercial establishments, restaurants, theatres and other establishments have been regulated and a weekly holiday made compulsory. Similar legislation has been introduced in other states.

In the interests of women workers some states like Bombay, Madhya Pradesh, and Madras have passed *Maternity Benefit Acts* by which leave of absence is given for a certain period before and after confinement, with a suitable wage allowance during the period of absence.

Each state has appointed Factory Inspectors whose duty is to secure the observance of the Factories Act. The Inspectors can compel the factory managers to take suitable steps for the prevention of accidents or injury to the workers from unfenced machinery, etc. Some of the State Governments have made rules requiring the provision of first-aid appliances, sterilized dressings, etc., for the benefit of workers who may get hurt in spite of all precautions. The *Workmen's Compensation Act* was passed in 1923 and it has subsequently been improved by several Amending Acts of 1929, 1931, 1933 and 1939. By this means the worker or his family is compensated for certain kinds of injury, or death, according to a fixed scale.

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[1] The earlier Factory Acts were passed in the years 1881, 1891, 1911 and 1922. There are separate Mines Acts for the protection of labour employed in mines.

The *Payment of Wages Act* (1936) regulates periods of wage payment and seeks to regularize and restrict deductions from wages.

Labour legislation has received a further stimulus owing to the keen interest in the welfare of labour taken by the popular Ministries since coming into power—especially in Bombay.

Special labour legislation similar in principle to factory legislation has been enacted in the case of mines, railways, tea-plantations, etc.

§24. **Housing.**—One of the biggest problems in industrial centres is connected with the housing of labour. The present condition of housing is most deplorable and there is terrible overcrowding and congestion in factory towns like Bombay. The labourer is not so much housed as 'warehoused'. The vast majority of the working classes live in single rooms in filthy, insanitary surroundings. It is impossible for the labourer to live a normal healthy family life in these conditions, and in fact many workers are forced to leave their families in their villages. Improvement Trusts, Municipalities, as well as individual employers have made some efforts to remedy this serious defect. But much more will have to be done before we can be said to be anywhere near a satisfactory solution of the problem.

§25. **Welfare work.**—There are other activities than those noticed above which have for their object the improvement of the health, safety and general well-being, and the industrial efficiency of the worker, which are grouped together under the name of 'welfare work'. Some of the more enlightened employers have voluntarily instituted welfare schemes for the benefit of their operatives. Sometimes institutions like the Y.M.C.A., the local Social Service Leagues, and the Depressed

Classes Mission Society have rendered valuable assistance to employers in organizing welfare work or have independently organized it themselves. About ten years back the Government of Bombay started labour-welfare centres in Bombay. Welfare work is concerned with education, medical and maternity benefits, recreation (in the form of games, cinemas, lantern-slide lectures as counter-attractions to the liquor-shop and the bucket-shop), housing, grain and cloth shops, workers' co-operative societies, tea-shops and canteens.

§26. **Trade Union movement.**—All these activities should, strictly speaking, be initiated and controlled by the workers themselves. Labour can best help itself by standing on its own legs instead of depending on outsiders. In western countries, labourers possess powerful and efficient associations of their own in the form of Trade Unions, which take care of their members' interests in every possible way. It is a good sign that in India also a similar movement has been started. Its progress here, however, is not comparable with its progress in the west. The leadership of the Indian Trade Unions is still largely in the hands of middle-class people who, although they may be well-intentioned, do not always understand the needs and the difficulties of the working classes. Sometimes it may happen that they have political and other motives besides the good of the workers. Another weakness of the Trade Union movement in India is due to the fact that the labour force in most of our industrial centres is heterogeneous in character and the workers may come from different places, speak different languages, profess different religions, and so on. Effective combination in such circumstances is a matter of great difficulty. Widespread illiteracy among the workmen is another serious handicap. And lastly we must refer to the floating character of Indian labour. Even when the labourer stays for years in a city after leaving his village, he does not necessarily work at the same establishment but may change his employer any number of times. A man who is thus constantly on the move from factory to factory cannot be a very useful member of a Trade Union or any other association. Gradually, however, matters may be expected to improve in all these respects. The Trade Union Act of 1926 seeks to encourage Trade Unions calculated to promote the obvious interests of the workers. Trade Unions which get themselves registered under this Act are subjected to certain restrictions intended to secure proper management of their funds and to direct their activities into proper channels. As against the restrictions, the Act grants certain privileges and concessions not available to the unregistered bodies. For example, the Act grants immunity from civil and criminal liability to officials of the registered Unions acting in furtherance of all legitimate objects of the Union. The formation of strong Trade Unions is essential not only to safeguard the interests of the wage-earners but also to promote the orderly progress of industry.

§27. **Present inefficiency of Indian labour.**—We have indicated above the main directions in which improvement of labour conditions is to be sought. Such improvement is calculated to create a more contented labour force. It will also increase the efficiency of Indian labour which, by comparison with western labour, must be pronounced to be inefficient. The European worker no doubt gets higher wages, but his outturn of work more than justifies the high wages. In this sense European and American labour is really cheaper than Indian labour. At the same time it should be borne in mind that the difference in efficiency is more a matter of environment than of race. There is no reason to despair of making Indian labour quite as efficient as European labour provided the necessary conditions for progress are provided in the shape of educational facilities, vigorous public health measures, decent housing, fair wages etc.

§28. **Industrial harmony.**—In recent years the frequency of industrial disputes has been growing in India, and the important question of maintaining harmonious relations between workers and employers has received the serious attention of the Government. The (Central) Trade Disputes Act was passed in 1929, and it was put on a permanent basis in 1934. The Act provides for the setting up of Courts of Inquiry (consisting of independent outsiders) and Boards of Conciliation (consisting of representatives of each of the parties to the dispute) with the intention of having the issues clearly framed so that the public may be in a position to judge fairly the rights and the wrongs of a dispute. Disputes are not settled compulsorily, but reliance is placed on the force of public opinion to bring about peace. Various states have also appointed special officers whose duty is to do all that is possible to prevent industrial strife. In Bombay legislation was passed in 1934 and 1938 for strengthening the machinery for preventing and settling industrial disputes. The Bombay Industrial Disputes Act (1938) provides for compulsory conciliation; whereas the Central Act makes conciliation voluntary.

Demands by labour for increased wages generally supported by strikes have latterly become distressingly frequent in India. Industrial tribunals to which disputes between labour and management are now habitually referred have generally granted awards favourable to workers. The cost of production has thus tended to rise as higher wages are not necessarily accompanied by higher production. The urgent problem of providing the proper incentives to labour for increased productive effort in return for higher wages requires to be tackled vigorously and scientifically.

§29. **Industrial labour during the war of 1939-45.**—Broadly speaking, the war has affected the industrial worker in this country in two ways, through changes in wages and costs of living and through changes in conditions of work and employment. To meet the increased cost of living dearness allowances were granted to many classes of workers, often on the recommendation of the Government who were anxious to maintain industrial peace during the war. To this end also they adopted measures for the prevention and speedy settlement of industrial disputes. The war also imparted urgency to further social legislation for the benefit of the industrial worker.

SUMMARY

General Survey

Industrialization is highly desirable for India. It will increase the wealth of the country, give it greater economic stability, make its people more alert and progressive and offer scope for diversity of talent. It will also decrease middle-class unemployment, benefit the public treasury through increased taxable capacity, and discourage hoarding by creating profitable avenues for the employment of savings. It will even add to our military efficiency.

The Government in this country was for a long time indifferent to industrialization. A new era seemed to have begun with the creation of the Imperial Department of Commerce and Industries in 1905. But *Government's policy* on the whole continued to be on the old *laissez-faire* lines until the war of 1914-18 unexpectedly forced it to adopt a more helpful attitude. The Indian Munitions Board, established in 1917, gave a great stimulus to industrial enterprise in India.

Protection and other Measures of State Aid

After that war, according to the recommendations of the Fiscal Commission of 1921, India entered upon the period of *discriminate protection*, and a number of modern industries have sprung up in consequence. But besides protection, we must have other things for securing real progress in industrial development, such as a sound and helpful banking and transport system, and effective organization of marketing and commercial intelligence. Education must be such as to make the general outlook of people more practical. Technical and commercial schools must be started, and an adequate supply of skilled labour of supervisors and managers must be ensured. The Government must be prepared to help Indian industries by patronage, finance and by suitable legislation.

The 1939-45 war has given further stimulus to the industrial development of India and the State has considerably liberalized its policy.

INDIAN INDUSTRIES

Indian industries fall into two classes: (i) Cottage industries, and (ii) Organized industries. Although industrialization has been advancing in India, especially since the war, organized industries as yet play a small part in the country's economic life. Cotton, jute, iron and steel are among the few large-scale organized industries.

The cotton mill industry is the leading industry—its principal centres being Bombay, Ahmedabad, Sholapur, Hubli and Nagpur. In spite of various adverse factors it has steadily expanded, especially in consequence of the stimulus it received during the war of 1914-18. Increased competition during the post-war period, especially from Japan, has made the grant of protection to the industry necessary since 1927. The industry is mainly financed by Indian capital and its management is largely in Indian hands. It experienced considerable expansion during the war of 1939-45.

The jute industry is to Bengal what the cotton mill industry is to Bombay. Both have progressed side by side since the middle of the last century. There were 105 jute mills in 1937-8 the great majority being situated round about Calcutta. India's monopoly of jute gives the jute mill industry a great natural advantage. Its expansion was greatly favoured by the war of 1914-18, and India today occupies a leading position in the manufacture and trade of jute. The jute industry suffered owing to economic depression and had had to adopt a policy of restricting output. Although the 1939-45 war has not benefited industry as much as the war of 1914-18, it has on the whole strengthened the position of the industry.

Iron and steel, a basic or key industry, has shown remarkable progress since 1907 with the establishment of the Tata Iron and Steel Company at Sakchi (Jamshedpur). It received a stimulus owing to the purchase of various requirements by the Government during the war of 1914-18, and has enjoyed the benefit of protection since 1924. The industry received a further big stimulus during the 1939-45 war. It has a great future before it having regard to the very substantial natural advantages it possesses.

The tanning and leather industry has the advantage of a large supply of raw hides and skins, much of which is still exported to Germany, the U.S.A., and other countries. Apart from the old indigenous tanning industry, a modern tanning and leather industry has come into existence at Cawnpore, Bombay and Madras. The war-time (1914-18) purchases of army boots and shoes, etc., by the Government contributed substantially to the progress of the industry. A similar result was produced by the 1939-45 war. There is however still considerable scope for internal improvement.

The chemical industry like other industries was favoured by the war of 1914-18; and has been further stimulated by the 1939-45 war. Even today, however, it shows several deficiencies. Its further development is essential for the industrial development of the country.

The paper industry, started in 1870, now claims 13 mills, with Calcutta as its principal centre. The bamboo paper pulp industry, which has received protection since 1925, shows great promise. *Other industries* are the sugar, match, cement, oil-milling, glass, printing ink, coal, petroleum, and tea industries. Several of these industries have benefited by the war of 1939-45, which has also stimulated the establishment of new industries such as aircraft, ship-building and aluminium.

Progress in modern industries need not necessarily be fatal to all our *old cottage industries*. With proper assistance and guidance there is no reason why quite a number of these should not continue to exist and flourish. A systematic exploration of the cottage industries is necessary in order that we may shape their future and help the artisans without sacrificing national interests. One of the most important and the most widespread of our industries is the hand-loom weaving industry, which still occupies several million people and which has been singled out by the Government for special attention. The woollen industry in some of its branches would also seem to have considerable survival value even under present conditions. Sericulture and silk manufactures, embroidery work, furniture, metal and cutlery, pottery and soap-making are among the other small-scale industries of India calling for careful investigation.

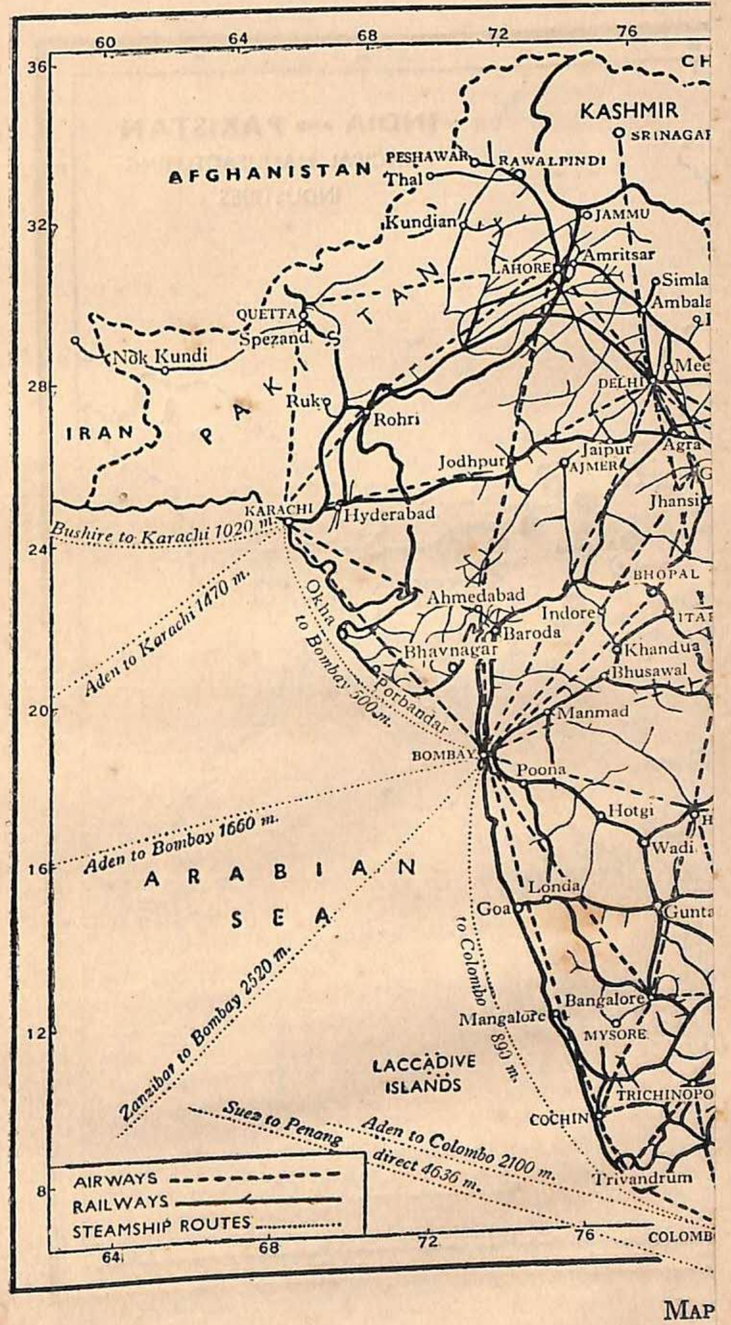
It is noteworthy that some of the cottage industries especially the cotton and woollen hand-loom industries, have been favourably affected by the 1939-45 war, by reason of their contribution to war production.

Industries which are found to deserve encouragement might receive it in various forms, e.g. manual training and instruction to artisans in schools specially started for the purpose, provision of cheap and reliable raw material, of new patterns and designs, practical demonstrations, arts and crafts exhibitions and emporia, marketing boards, licensed warehouses, co-operative depots, and financial subventions. The Fiscal Commission (1949-50) has recommended the establishment of a statutory corporation in each state 1939-45 for the promotion of rural industries.

INDUSTRIAL LABOUR

One of the peculiarities of our industrial labour is its *migratory character*. Most of the labourers have been born and brought up in rural surroundings and they have no idea of making the industrial towns their permanent homes. They come to the cities unwillingly, driven by economic necessity.

The feeling of labour *scarcity* should grow less as the supply of *skilled* labour increases and as housing and other conditions in the cities become more attractive. *Factory legislation* (based on western models) has already made considerable progress in India and aims at regulating hours of work, protecting labourers from injury to health or serious discomfort while at work, and giving special attention to the interests of female and child labour. Similar legislation exists in the case of shops (in Bombay), mines, plantations and railways. Other items of labour legislation relate to workmen's compensation, payment of wages, maternity benefits, etc. Various official and non-official efforts are being made to improve the housing conditions, which at present are terrible, and welfare work of different kinds is being done for ameliorating the condition of factory workers. Workers have also begun to organize themselves into *Trade Unions*.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Londa
Goa
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to Colombo 890 m.
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Suez to Penang direct 4636 m.
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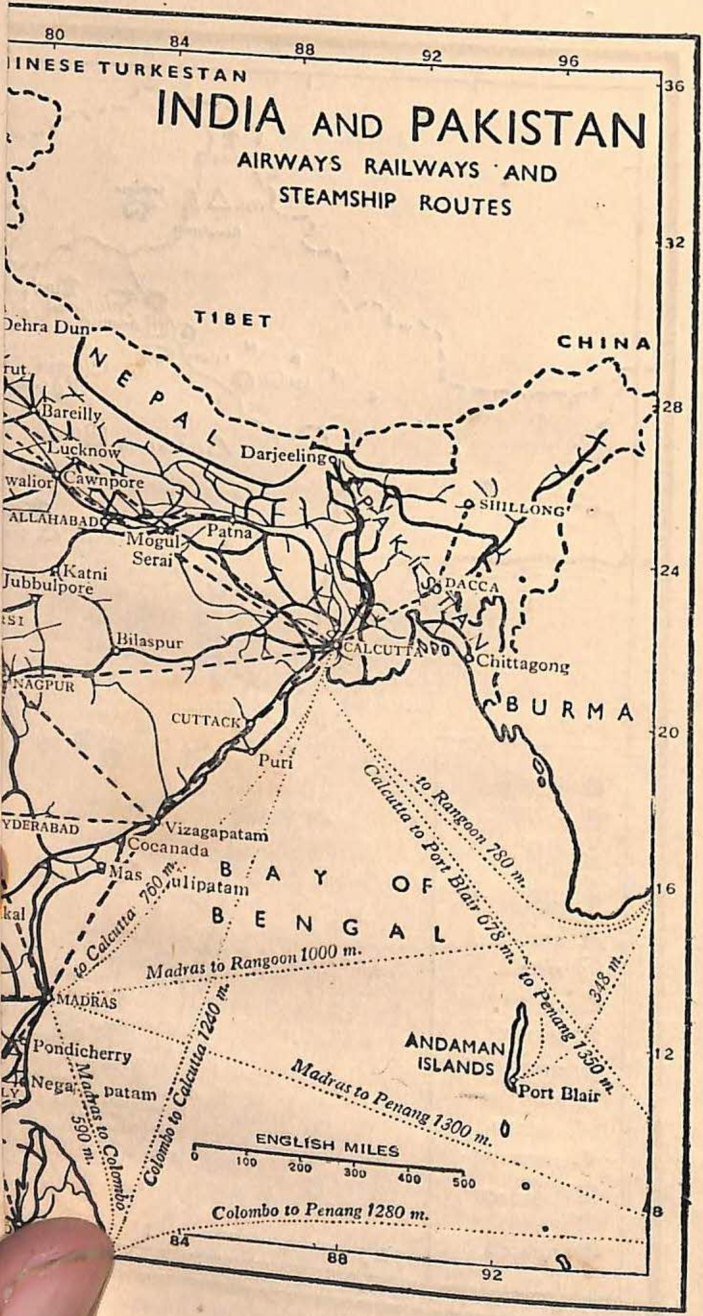
MAP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Mogul Serai
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Darjeeling
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DACCA
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ANDAMAN ISLANDS
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to Rangoon 780 m.
Calcutta to Port Blair 678 m.
to Penang 1350 m.
348 m.
to Calcutta 760 m.
Madras to Rangoon 1000 m.
Colombo to Calcutta 1240 m.
Madras to Penang 1300 m.
Madras to Colombo 590 m.
Colombo to Penang 1280 m.
ENGLISH MILES
0
100
200
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500

The progress of the Trade Union Movement is, however, hampered by illiteracy among workers, absence of working-class leadership, the heterogeneous character of Indian labour and its agricultural interests. The Trade Union Act of 1926 has been passed to help legitimate Trade Union activity.

As compared with European labour, Indian labour is undoubtedly *inefficient*. This inferiority is not due to inherent defects but to the absence of a suitable environment under which efficiency is developed.

Industrial disputes have of late been growing in frequency in India, and the Trade Disputes Act of 1929, with its provision for Courts of Inquiry and Boards of Conciliation, is intended to prevent industrial disputes from arising or from lasting too long. The Bombay Trade Disputes Act (1938) makes conciliation compulsory before resorting to a strike. Further machinery was devised during the 1939-45 war to secure prevention and prompt settlement of industrial disputes.

V

TRANSPORT AND TRADE

TRANSPORT

§1. **Importance of transport.**—A good system of communication by land, water, and air is one of the most important of all the conditions for the prosperity of a nation. It breaks down the isolation of the different parts of a country and increases the contact between town and village to the advantage of both. It is the very life and soul of trade and acts as a stimulus to both agriculture and industry. Improved means of communication and conveyance are essential for the free movement of men and goods, raw materials and finished products, and for the proper utilization of the resources of a country. Difficulties of communication have been largely removed in modern times by railways, the telegraph, motor and other forms of transport.

India is a sub-continent and the natural obstacles in passing from one region to another are formidable. Communication often breaks down in the rainy season. Natural waterways are less important in India than in England. Till the middle of the nineteenth century the means of communication were very defective in India. There were only very few trunk roads constructed by Indian rulers, chiefly by the Moguls. Many of the so-called roads were mere tracks and were impassable during the rainy season. They were also far from being safe. Pack animals were the only means of access to many parts of the interior. The state of communication was even more unsatisfactory in peninsular India with its rugged mountainous territory and the poor facilities for water transport except on the two coasts. We have already explained how the self-sufficiency of the Indian village was mainly the result of the imperfect means of communication.[1] A veritable social and economic revolution has been effected by the construction of a network of railways and roads from the time of Lord Dalhousie, who initiated a vigorous public works policy.

The transport situation may be considered under four main heads: Railways, Roads, Water Transport and Air Transport.

Railways

§2. **Periods of Indian Railway history.**—The Indian Railway system extended over 41,052 miles at the end of March 1941. Of these the State owned 29,586 miles (72 per cent) and managed 16,852 miles. The total capital outlay on all railways amounted to Rs. 853·78 crores. The following ten periods in the history of Indian railways may be distinguished.

(i) *The old Guarantee System* (1844-69).—The first proposals for the construction of railways were made in 1844, and contracts were made for the construction of two small railway lines near Calcutta and Bombay with the East India Company and the Great Indian Peninsula Railway Company respectively. It was, however, Lord Dalhousie's famous Minute on the subject in 1853 that gave a decisive turn to the Government's policy of construction of lines by railway companies incorporated in England and enjoying a guarantee given by the Government of a specified minimum return, or rate of interest on the capital invested. Lord Dalhousie urged the creation of a system of trunk lines and emphasized the great social, political and commercial advantages which the country would thereby derive. Private capital was not then available in India for railway construction. That is why the guarantee system was adopted. Accordingly between 1854 and 1860 contracts were entered into with eight companies for constructing and managing railways in different parts of India, the rate of interest guaranteed ranging from 4½ to 5%. The Government reserved to itself certain powers of supervision and control and the option to purchase the lines after twenty-five years or fifty years, on certain fixed terms.

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[1] Ch. ii, §§3-4.

Any surplus profits, after the guaranteed interest had been met, were to be shared by the companies with the Government. The early results of this system, under which the companies had no incentive to economical management, were disappointing, and it proved to be a great drain on the resources of the State.

(ii) *State construction and management* (1869-79).—The Government therefore decided that so far as capital for new lines was concerned, the State should secure for itself the full benefits of its own credit and cheaper methods of construction. This policy, under which the Sind and Punjab lines were constructed, had however to be soon abandoned owing to the financial difficulties of the Government.

(iii) *The new Guarantee System* (1879-1900).—Accordingly the Government decided again to utilize the agency of guaranteed companies. Contracts were made with new guaranteed companies such as the Bengal-Nagpur and the Madras and Southern Mahratta railway companies. Under this system the lines constructed by the companies were declared to be the property of the State, which was entitled to terminate the contracts at the end of twenty-five years after repaying the capital provided by the companies. Interest at 3½% was guaranteed during the period of the contract. Under this new guarantee system, the terms were in every respect more favourable for the Government than before. The companies were allowed to manage the lines when completed. In subsequent years, when the old and new contracts expired, the Government purchased the lines and either transferred them to State management as in the case of the Eastern Bengal or Sind-Punjab railways, or handed them over again for management to the same companies, as in the case of the East Indian and G.I.P. railways. In this way the State came to be the owner of the bulk of the trunk lines. Until recently, however, the management was left to the companies subject to Government control, exercised through the Railway Board which was created in 1905. The last of the contracts (i.e. with the Bengal-Nagpur railway) expired in 1950.

(iv) *Rapid extension of railways and commencement of railway profits* (1900-14) were the features of the pre-war period of 14 years. In 1908 the 'programme' system was adopted, under which the Government laid down for the future the standard of £12½ million a year for capital expenditure on railways. Loans were raised in England for this purpose. The commencement of railway profits was due partly to the general economic development of the country and partly to the expansion of irrigation works in the Punjab and Sind.

(v) *Breakdown of the railway system* (1914-21).—During this period there was a serious breakdown and deterioration of the railways, partly owing to the war-time pressure on them and partly owing to the curtailment of the annual programme of capital expenditure.

§3. (vi) **The Acworth Committee.**—An overhauling of railway policy was effected on the recommendations of a special Railway Committee (1920-1) presided over by the late Sir William Acworth. The Committee favoured State management of the railways, and also advocated construction of new lines by State agency. It may be added that Indian public opinion has always strongly opposed company management. Apart from profits taken out of India by the companies, the charge against them was that their policy was unsympathetic towards Indian national interests. Far from helping Indian manufacturers and commerce, it seemed actually to discriminate against them. Also, scant attention was paid to the comfort of the third class passengers from whom the main part of the railways revenue was derived. Under the new policy, the Great Indian Peninsula, the East Indian, the Southern Punjab, the B.B. & C.I. and Assam-Bengal railways have been transferred to State management. The Railway Board was also reorganized. It is the agency through which the Government of India exercises effective supervision over the whole railway system in the country. Larger funds were also made available for capital expenditure on railways.

Another change in administration was the separation of the Railway from General finance in 1925, as recommended by the Acworth Committee in order to insure the railways being run as a commercial concern. Under the new arrangement the railways are required to make a special contribution to the general revenues.

§4. **Recent railway history.**—(vii) 1924-5 *to* 1929-30: *the Separation Convention, period of prosperity*.—The first six years following the introduction of the separation convention were years of prosperity.

(viii) 1930-1 to 1935-6.—But the railways had to face six years of adversity following the economic depression and the growing competition of the roads.

(ix) 1936-9: *Partial Recovery and Railway Inquiry.*—The railways turned the corner and began to pay their way in 1936-7, partly owing to the recovery of trade and prices and partly owing to retrenchment in expenditure, the need for which was emphasized by the Railway Inquiry Committee (1936-7) presided over by Sir Ralph Wedgwood. The Committee stressed the need for economy in all the departments, and improvement of services to meet road competition and the creation of a reserve of at least Rs. 50 crores.

(x) *Indian railways during the* 1939-45 *war.*—On the outbreak of World War II however traffic and earnings increased rapidly and the railways found any drastic economy or reorganization unnecessary. During the war much of the coastwise traffic and road traffic was diverted to railways owing to scarcity of shipping and petrol. Partly owing to the heavy traffic and partly owing to increased rates and fares there has been a sharp increase in railway profits and the railways now contribute large sums to the general revenues.

§5. **Economic effects of railways.**—The railways have conferred substantial advantages on the country. They have promoted the efficiency of general administration and of military defence, and have contributed to the cultural progress of the country. Their economic effects have been equally striking. Famine relief in a country like India depends in an efficient railway system for the quick conveyance of food-stuffs to the affected areas.[1] The railways promote economic advance, tend to equalize prices throughout the country, create new employment and make possible a more even distribution of the population. The economic isolation and self-sufficiency of the village have been broken down by railway development. Agriculture has been commercialized, i.e. the agriculturist grows not only for subsistence, but for profit by the sale of his produce, for which he now commands a wider market owing to the extension of railways. Not only national trade but also trade with other countries has been stimulated by the facilities for rapid conveyance of goods to the ports for shipment abroad and from the ports for distribution in the interior. On the other hand, the railways have led to certain undesirable results, such as the rapid decay of indigenous industries, due to the intense competition of machine-made goods which the railways could carry to the remotest parts of the country.

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[1] See ch. viii, §§6-7.

§6. **Need for further railway development.**—On the whole, however, the benefits conferred by railways outweigh their drawbacks, and speaking of the future there is more and not less need for railway development, especially in the rural areas which are inadequately served. India's backwardness in railways development when compared with other countries is shown by the fact that, while there are 8·2 miles of line per 100 sq. miles in the U.S.A., there are only 2·2 miles of line per 100 sq. miles in India. Along with railways construction it is also necessary to develop and encourage industries connected with railways. The railway rates policy should aim at furthering the general industrial development of the country. There exists at present a Railway Rates Advisory Committee to investigate complaints of undue preference, high rates, lack of reasonable facilities to trade, etc., and to make recommendations to the Government on these matters.

Roads

§7. **Road history.**—As already pointed out, good roads were few till the middle of the last century. Lord William Bentinck revived the idea of a highway connecting the north of India with Bengal. The result was the construction of the Grand Trunk Road linking Peshawar with Delhi and Calcutta.

A new chapter in the history of roads was opened by Lord Dalhousie, who initiated a more vigorous road policy. A Central Public Works Department was created, and similar departments were established in each of the provinces in 1855 replacing the old Military Boards which till then had been in charge of the roads. As railway construction proceeded apace, it became necessary to build roads to feed the railways rather than to compete with them. Trunk roads, however, came to be neglected, the Government being more interested financially in the profitable working of railways. The progressive policy of Lord Mayo and Lord Ripon with regard to local self-government, under which local control over local affairs was provided, gave some stimulus to road development. The total mileage of extra-municipal roads maintained by public authorities steadily increased and it stood at 284,191 on 31 March 1938. Of these 63,706 miles were metalled roads and 220,485 unmetalled roads.

§8. **Main features of India's road system.**—The main features of India's road system may be briefly described. There exist four trunk roads stretching across the country, with which most of the important subsidiary roads are linked. (i) The most famous of the trunk roads is the ancient marching route for armies, known as the Grand Trunk Road, which stretches right across the northern part of the country from Khyber to Calcutta; the other three connect (ii) Calcutta with Madras, (iii) Madras with Bombay, and (iv) Bombay with Delhi. These four main roads account for about 5,000 out of the 64,070 miles of extra-municipal metalled roads (in 1937-8) in British India. Southern India is most favoured both as regards the number and the satisfactory character of its subsidiary roads. The worst-served regions are Rajasthan, Sind, parts of the Punjab, Orissa and Bengal. Aridity, sparseness of population, unbridged and unbridgeable waterways, difficulties of the ground (as in the lower Himalayan reaches), lack of suitable road-building materials, etc., are some of the obstacles that have prevented more rapid progress. Besides metalled roads there is a large mileage of *kachha* (unmetalled) roads (220,485 miles in 1937-8). 185,044 miles of these roads provide quite good going for motor traffic during the dry weather.

§9. **Need for more roads.**—Considering her size India is extremely poorly equipped with roads. The deficiency is all the more keenly felt now that motor transport is advancing by leaps and bounds and creating a new range of problems of road construction and maintenance. As against 2,500 miles of road per 1,00,000 of population in the U.S.A., India has only 84 miles. While the countryside is crying for more and better roads, much difficulty is being experienced in maintaining even the existing roads in a tolerable condition. Roads controlled by the local bodies are in a particularly bad state because of the poor resources of these bodies. The country needs a perfect network of arterial and feeder roads for the smooth conduct of her extensive internal and external trade, for the development of industries connected with the preparation of agricultural produce and for the proper exploitation of her valuable forest resources. In December 1943, the Chief Engineers of the Provinces and States evolved a plan of road development (The Nagpur Plan) at an estimated cost of Rs. 450 crores in the course of two decades after the 1939-45 war. To make allowance for the great rise in prices which has since taken place, the figure of Rs. 450 must be increased to something like Rs. 1,400 crores.

§10. **Rail-road co-ordination.**—The development of roads, however, need not adversely affect the railways. In fact the railways will derive considerable benefit from such feeder roads. While road motor traffic has an advantage over the railways so far as lighter traffic and short journeys are concerned, the railways will be a more convenient and economical form of transport for heavy loads and longer distances. On the whole, roads and railways are complementary to each other rather than competitive. In recent years increasing attention is being paid to the need for co-ordination of rail-road transport. The question was discussed by a specially convened Road-Rail Conference at Simla and was later (1937) examined by the Wedgwood Inquiry Committee. On its recommendation the Motor Vehicles Act was passed by the Central Legislature (1939). It provides for the regulation of motor lorries and omnibuses so as to ensure their being run as a public utility concern by Transport Authorities established in each province. It also gives the Provincial Governments powers to control road transport so as to avoid senseless competition between the railways and the roads. This new legislation is expected to result in establishing a co-ordinated system of transport. Road competition has been considerably curtailed owing to petrol rationing during World War II.

§11. **New road policy.**—A special Road Development Committee was appointed in 1927 to consider India's road problems. The Committee emphasized the necessity of a comprehensive road policy and of co-ordination of local programmes. It pointed out that road development was passing beyond the financial capacity of Provincial Governments and local bodies, and was becoming a national interest which should therefore to an increasing extent be a charge on central revenues. It also recommended that local bodies should receive more liberal financial assistance from provincial funds.

In accordance with the Road Committee's recommendations, the import and excise duties on motor spirit were increased from 4 to 6 annas per gallon in March 1929. The proceeds of the additional duty were allotted for expenditure on road development, being credited to a separate Road Development Account. The annual grant, after allotting 15% to the Government of India (till 1934 only 10%), is apportioned among the provinces on the basis of their respective petrol consumption. These grants are made for expenditure on such schemes as are approved by the Governor-General-in-Council with the advice of the Standing Committee on Roads of the Central Legislature. In order to secure co-ordination in road matters, periodic Road

Conferences of provincial representatives with the Standing Committee on Roads are held. This policy was placed on a more or less permanent basis in 1934. A further Road Resolution (1937) has empowered the Government of India to resume the share of a province if it fails to control and regulate motor transport within the province.

Water Transport

§12. **Inland waterways.**—Water transport played an important part in the carriage of bulky commodities before the era of railways, and even today it continues to play by no means a negligible part in inland trade. On the whole, however, in spite of the relative cheapness and certain advantages in the carrying of large cargoes, water transport has failed to hold its own in inland trade since the advent of the railways.

Water transport falls under two divisions: (i) Inland waterways and (ii) Marine transport. Inland water transport is supplied by the great river systems of northern India.[1] The Indus, the Ganges and the Brahmaputra are navigable by steamers all the year round for hundreds of miles above their mouths or above the heads of navigable canals traversing their deltas. The tributaries of the Indus, the Chenab and Sutlej are open to small craft all the year round. The rivers in the peninsula generally do not, however, lend themselves to navigation, as they are not perennial and pass through rocky beds. But the Mahanadi, the Godavari and the Krishna are navigable in their upper reaches. Inland navigation, which was largely resorted to in the old days (e.g. the Ganges was a great natural highway of commerce) has received a setback since the appearance of railways. The Industrial Commission (1918) urged the co-ordination of railway and waterway administrations with a view to relieving the existing congestion in the railway system and meeting the needs of small-scale transport in the country.

§13. **Marine transport.**—We have already referred to the extensive coast line of India. Nature appears to have intended that India should be a seafaring country and she may well aspire to be one of the principal carriers of the world.[2] Till about the beginning of the nineteenth century she can be spoken of as a considerable maritime country. She had a flourishing shipbuilding industry, and the bulk of the commerce in the Indian seas was then carried in ships built in India. The introduction of iron-built ships, improvement of naval architecture, and jealousy of the English shipping interests brought about the decay of Indian shipping. India's share in the coasting trade amounts only to 25%, and in the oceanic trade only to about 2%. This highly remunerative branch of business is at present controlled by foreign shipping companies, whose competition prevents the rapid development of an Indian Mercantile Marine. The adoption of devices of unfair or cut-throat competition such as deferred rebates, (i.e. the grant of rebates or refunds of a certain part of the freight paid at the end of a specified period, provided the shipper or merchant does not send his goods by any other line) and rate-cutting have hampered the development of Indian navigation companies in the coastal trade in India. The Indian shipbuilding industry is in no better position.

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[1] See ch. i, §4.

[2] See §19, and ch. i, §4.

§14. **An Indian mercantile marine.**—The need for the development of an Indian mercantile marine was stressed by the Mercantile Marine Committee (1923), which recommended the reservation of the coastal trade for ships controlled by Indians. An unsuccessful attempt was made in 1928 by Mr S. N. Haji to promote a Bill in the Central Legislature for the reserving of coastal traffic for Indian shipping, and a similar fate attended fresh attempts made sometime later (1937-8). On the recommendation of the Indian Mercantile Marine Committee the Government has, however, provided a training ship (I.M.M.T.S. *Dufferin*) for Indian cadets.

The 1939-45 war has emphasized the importance of every maritime country building its own ships in its own yards. Aided by certain facilities granted by the Central Government, the Scindia Steam Navigation Company started its shipbuilding yard at Vizagapatam in 1941. The first large commercial vessel built in India, the *Jalausha* was launched by Pandit Jawaharlal Nehru in 1948.

All together, including the *Jalausha* and the *Jalapankhi* which was launched in December 1949, four 8,000 tonners were turned out in two years from the Vizagapatam shipyard.

Air Transport

§15. **Air transport.**—Since the war of 1914-18 civil aviation has made rapid progress and has initiated a far-reaching revolution in the transport system of the world.

Interest in civil aviation in India was aroused by the inauguration of a postal air-mail service between Karachi and Bombay largely on the initiative of Lord Lloyd, Governor of Bombay (1918-23). The inauguration of the French and Dutch air services across India, regular weekly Imperial Airways Service between England and Karachi (until its suspension during the 1939-45 war), the introduction of the Empire mail-scheme and the general increase of civil aviation in all parts of the world have stimulated both the Government and the public. Besides the new Government Department of Civil Aviation, private enterprise has also come forward and there are at present seven aero-clubs which give instruction in aviation excluding those in Pakistan. There is a growing organization of trunk-air-lines in India. The Government of India have encouraged aviation by granting subsidies to the flying clubs in India with a view to reducing the high cost of training pilots and by instituting civil aviation scholarships. The value of aviation to business does not yet appear to be properly appreciated in India but the prospects are not altogether discouraging.

The war greatly increased the urgency of developing aviation in India and led the Government to take more interest in it by way of expanding the Indian Air Force, which was started on a small scale in 1932, and by encouraging the establishment of an aircraft factory in Bangalore.

TRADE

External Trade

§16. **History of India's foreign trade.**—As long ago as 300 B.C. India had established trading connexions with Babylon, Egypt, Rome, Greece, China, Iran and Arabia. This early trade was in rare and costly commodities, the principal articles of export being fine textile manufactures, metal ware, ivory, perfumes, dye-stuffs, spices, etc., while the imports consisted of brass, tin, lead, wines, horses, etc., and of a large quantity of gold. The last item suggests an excess of exports over imports, which has always been a feature of India's foreign trade. During the Moslem period, communications established with India through the North-West Frontier encouraged the overland trade of India with Iran and countries to the north. Towards the end of the fifteenth century an all-sea route to India via the Cape of Good Hope was discovered by Vasco da Gama, and thus was established the fateful contact between the east and west. Four western European powers struggled for the monopoly of trade with India. These were Portugal, Holland, England and France. England was destined ultimately to triumph over the other nations, and the East India Company, which was formed in 1600, succeeded in capturing the trade of India and incidentally became the first territorial power there. The nineteenth century witnessed a change as to the nature and the direction of India's foreign trade and India came to export large quantities of foodstuffs and raw materials, and to import, mainly, manufactured goods.

§17. **Growth of India's foreign trade.**—India's foreign trade began to expand rapidly after 1869, when the Suez Canal was thrown open for navigation. The construction of railways and roads in the country also promoted the development of external as well as internal trade. Exports increased from an average annual value of Rs 55·86 crores for five years of trade during 1864-5 to 1868-9 to an average of Rs 354 crores per year for the period 1924-5 to 1928-9. During the same period imports rose in value from Rs 31·7 crores to Rs 251 crores. The main causes of this growth were the establishment of peace and order, improved means of communication (including the laying of the submarine cables between Bombay and Suez), the great improvements in naval architecture and rapid growth of mercantile marines in other countries, removal of internal customs barriers and transit duties in India, and the adoption of the policy of free trade. For a long time Great Britain naturally occupied a predominant position in the Indian market. Since the close of the last century, however, Germany, Japan, the U.S.A., and other countries have come in as serious competitors of Great Britain. During the war of 1914-18, Japan and the U.S.A. greatly increased their share in India's foreign trade, and before the 1939-45 war Japanese goods had been ousting not only British but even Indian goods in our own markets. The war of 1914-18 gave a temporary setback to India's foreign trade, especially to the import trade. The export trade did not suffer to the same extent as there was still considerable demand for India's staple exports. The termination of the war was followed in India as in other countries by a trade boom, which in turn was succeeded by a trade depression. After a temporary phase of recovery, during the years 1929-33 the world passed through an economic depression of unprecedented severity which seriously affected India's foreign trade. The export trade suffered more than the import trade owing to a relatively much bigger drop in the prices of raw materials and foodstuffs as compared to manufactures and owing to a diminished world demand for India's staple exports. The export trade declined in value to Rs 136 crores in 1932-3. The lowest value of import trade, namely Rs 117 crores, was reached in 1933-4. Subsequently there was partial recovery following a general recovery in the world demand for primary commodities and raw materials. The value of the export trade (excluding Burma) during 1936-7 was Rs 192 crores and of the import trade Rs 144 crores. The balance of trade in private merchandise, which used to be greatly in favour of India in former years, shrank to Rs 3 crores in 1932-3 but later partially recovered. This recovery received an unexpected setback with the advent of the business 'recession' in 1937-8, which also affected India's foreign trade.

§18. **India's foreign trade during the war period (September 1939-45).**—The outbreak of the war in Europe in September 1939 changed the Indian trade position and the whole outlook was transformed from pessimism into optimism. The total exports rose from Rs 169 crores in 1938-9 to Rs 214 crores in 1939-40. The total value of imports rose from Rs 152 to Rs 165 crores in the same year. The trade situation underwent deterioration in 1940-1 when imports declined in value to Rs 160 crores and exports to Rs 199 crores. The following year, in spite of the dislocation of the international trade, exchange control restrictions in respect of exports and imports, growing shortage of coinage, higher insurance and freight rates, showed an appreciable improvement in trade more in respect of exports than imports. The increase in trade with Commonwealth countries and with Allied countries like the U.S.A. thus compensated for the loss of the continental markets and latterly of the Japanese and other Far Eastern markets.

§19. **Main characteristics of India's foreign trade.**—The following two tables (I and II) show the comparative importance of the principal articles imported into and exported from British India[1] in 1940-1 and two preceding years.

The most outstanding characteristic of India's trade is that the bulk of the exports from India consist of foodstuffs and raw materials, while the bulk of the imports consist of manufactured articles. Owing to the industrial development since the war of 1914-18 the percentage of exports of manufactures to the total exports has shown a tendency to increase gradually.

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[1] i.e. the foreign trade of ports in British India.

The 1939-45 war, by accelerating the industrialization of the country, has strengthened the tendency of the percentage of exports of manufactures to total exports to increase. Contrariwise there was considerable increase in the imports of raw material, such as raw cotton, in the war period.

Another characteristic of India's foreign trade is that while the import trade consists of a wide range of articles, the export trade is restricted to a comparatively few great staples like raw cotton, jute, tea, oil-seeds, and food grains.

The third noteworthy feature is that Great Britain holds a predominant position in our foreign trade, especially on the import side. On the export side, while she is the most important single customer, the aggregate of that trade is more evenly divided than the import trade between a number of countries.[1] Lastly, India's foreign trade normally shows an excess of exports (in merchandise) over imports, i.e. a 'favourable' balance of trade (see §23 for an explanation of this feature) considerably decreased in the past few years.[2]

§20. **Principal articles of imports and exports.**—We shall now discuss the relative importance of commodities (i) on the import side, and (ii) on the export side.

On the *import side, cotton and cotton goods* still hold the place of honour, though the percentage proportion of total imports has appreciably fallen owing to increased production of cloth in the country itself, and the disturbed political situation in latter years. The 1939-45 war led to a further decline in the imports of piecegoods and to an increase in home-production. The imports of cotton piecegoods, which formerly came mainly from Lancashire, came from Japan before the freezing of Japanese assets in July 1941. Japan thus appreciably increased her share in the Indian market and was a serious rival of Lancashire as well as of the Indian mills. The imports of raw cotton are also increasing owing to the growing use of superior long-staple cotton in our mills.

Grain, pulse and flour, machinery and mill-work—the imports of which have considerably fallen since the beginning of the 1939-45 war—mineral oils, vehicles, metals and ores, silk, dyeing and tanning substances, instruments, apparatus and appliances, wool, raw and manufactured, paper and pasteboard, chemicals, drugs and medicines, were other articles of import of considerable importance.

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[1] See also §21.

[2] See *Elementary Principles of Economics*, ch. xii, §4.

TABLE I—*Imports*

The following tables show the comparative importance of the principal articles imported into and exported from British India in the years 1938-9, 1939-40 and 1940-1.

(In lakhs of rupees)

—	1938-9	1939-40	1940-1	Percentage on total imports of merchandise in 1940-1
Cotton and cotton goods	22,66	22,10	20,82	13·27
Grain, pulse and flour	13,76	21,80	14,35	9·15
Oils	15,62	18,62	21,03	13·41
Machinery and mill-work	19,05	14,66	11,16	7·12
Artificial silk	2,24	4,59	5,44	3·47
Dyeing and tanning substances	3,14	3,61	5,30	3·38
Instruments, apparatus and appliances	5,85	5,58	4,98	3·18
Wool, raw and manufactured	2,82	2,16	4,28	2·73
Paper and pasteboard	3,23	3,46	3,94	2·52
Wood and timber	2,87	2,70	2,89	1·85
Provisions and oilman's stores	2,48	2,63	2,26	1·44
Spices	2,63	2,54	2,19	1·40
Drugs and medicines	2,20	2,61	2,18	1·40
Hardware	2,57	2,26	2,06	1·32
Liquors	2,11	2,19	2,00	1·28
Silk, raw and manufactured	1,94	1,82	1,72	1·10
Rubber manufactures	1,40	1,48	1,56	·99
Tea chests	90	83	1,34	·86
Tobacco	1,04	1,17	1,34	·85
Paints and painters' materials	89	1,02	1,02	·65
Fruits and vegetables	1,34	1,21	1,02	·65
Glass and glassware	1,25	1,02	86	·55
Manures	1,05	1,25	80	·51
Buildings and engineering materials	62	56	66	·42
Belting for machinery	49	53	62	·40
Stationery	67	64	57	·36
All other articles	37,54	42,24	40,46	25·83
Total value of imports	152,36	165,28	156,79	100·00

TABLE II—*Exports*

(Ie lakhs of rupees)

—	1938-9	1939-40	1940-1	Percentage on total exports of merchandise in 1940-1
Jute, raw	13,40	19,83	7,85	4·20
Jute manufactures	26,26	48,72	45,38	24·29
Cotton, raw and waste	24,67	31,04	24,45	13·09
Cotton manufactures	7,12	8,57	16,49	8·83
Tea	23,29	26,31	27,74	14·85
Seeds	15,09	11,89	10,05	5·38
Leather	5,27	7,69	5,98	3·20
Grain, pulse and flour	7,54	5,09	5,91	3·16
Hides and skins, raw	3,84	4,11	3,14	1·68
Tobacco	2,75	2,53	2,88	1·54
Fruits and vegetables	2,27	2,37	2,44	1·31
Wool, raw and manufactured	3,85	4,03	2,37	1·27
Lac	1,27	1,91	2,25	1·21
Rubber, raw	71	94	92	·49
Rubber manufactures	4	9	41	·22
Oilcakes	3,01	2,03	84	·45
Coir	96	1,28	77	·41
Hemp, raw	72	86	76	·41
Spices	78	1,08	75	·40
Provisions and oilman's stores	59	71	73	·39
Building and engineering materials other than of iron, steel or wood	15	31	63	·34
Fish (excluding canned fish)	69	70	63	·34
Dyeing and tanning substances	59	71	54	·29
Boots and shoes	22	29	50	·26
Manures	37	48	46	·24
Paraffin wax	36	33	35	·19
Drugs and medicines	28	33	34	·18
All other articles	16,70	19,69	21,30	11·38
Total value of exports	162,79	203,92	186,86	100·00

The normal characteristics of India's sea-borne trade are (i) the predominance of foodstuffs and raw materials on the side of exports and of manufactured articles on the side of imports, (ii) a wide range of articles on the import side as contrasted with a comparatively small number of items consisting of great staples like raw cotton, jute, oil-seeds and foodgrains on the export side, (iii) the predominant position of Great Britain in India's foreign trade especially as regards imports and lastly (iv) an excess of exports over imports, i.e. a favourable balance of trade. The order of importance among the principal imports is (1) cotton and cotton goods, (2) grain, pulse and flour, (3) oils, (4) machinery and mill-work and (5) metals and ores.

Similarly for exports the order is as follows: (1) cotton, (2) tea, (3) oil-seeds, (4) leather, (5) metals and ores, (6) grain, pulse and flour, (7) raw hides and skins, (8) wool, raw and manufactured, (9) tobacco, (10) fruits and vegetables, (11) oilcakes.

The Second World War, like the war of 1914-18, gave some stimulus to industrialization in India and an increased proportion of manufactures in our exports and a smaller proportion of raw materials in our imports. The fall in the imports of manufactures was due to the preoccupation of our normal suppliers with war production, the shortage and difficulty of shipping and the conservation of foreign exchange by the Government for the purchase of essential war goods. The increase in the export of manufactures from India was due mainly to the difficulty experienced by countries in the Middle East in obtaining their supplies from western countries, who were unable to export to them for the same reasons that they were unable to export to India. Whether the advantage gained by India during the war will be retained with the return of normal conditions will depend on the wisdom and vigour of our national policy and our advance in efficiency and salesmanship.

§21. **Direction of India's Trade.**—Before 1914, the United Kingdom and Europe generally dominated the foreign trade of India. The United Kingdom was the chief participator although Germany and Japan had already begun to figure prominently in the period before 1914 in the trade with India. The United States began to assume a position of growing importance from the year 1914. The Ottawa preferences introduced in 1933 helped the United Kingdom to recover part of the ground she had lost to other countries trading with India. The trend of India's trade away from the United Kingdom however persisted and was emphasized after the outbreak of the 1939-45 war. Before the war, while India had normally a favourable balance of trade on the whole, with the United Kingdom she used to have an unfavourable balance. This position has, however, been reversed in the course of the Second World War and there is an excess of our exports over imports from the U.K. India's large favourable balance of trade with England has enabled her (i) to discharge her current obligations in England by direct exports, (ii) to reduce the volume of these obligations by repatriating her sterling debt, and (iii) to accumulate large sterling balances held in London in the name of the Reserve Bank of India.

Developments in trade during the war disclosed some striking features in regard to its direction. Of the Commonwealth countries, while the total value of India's trade with the United Kingdom in 1944 stood at about the same level as in 1938 (Rs. 103 crores), that with Ceylon, Australia, South Africa and Canada showed a marked expansion during the period. Among the non-Commonwealth countries, noticeable increases took place in respect of the United States, Iran and Egypt.

§22. **Re-exports.**—India has a certain amount of re-export (entrepôt) trade. Being situated in the centre of the eastern hemisphere, she is fitted to act as a distributing centre, particularly for those Asiatic countries which have no sea-board of their own. The re-export trade is mainly in manufactured articles, especially textiles, imported from the western countries, which are taken by Iran, Muscat and East Africa. The principal article re-exported to western countries is raw wool, which is imported across the land frontier of India. The bulk of it goes to the United Kingdom.

§23. **India's balance of Trade.**—A large surplus of exports over imports of merchandise is, as already mentioned, a feature of India's foreign trade. India's average favourable (visible) balance of trade in private merchandise was Rs. 78 crores in the five pre-war years, Rs. 76 crores during the five war years and Rs. 53 crores during the five post-war years ending 1923-4. After rising during the next five years to Rs. 113 crores it dropped to the low figure of Rs. 43 crores during the five years ending 1933-4. In the year 1932-3, it was only Rs. 3 crores, the smallest on record. Since then it has partially recovered, being Rs. 78 crores in 1936-7. In the year 1937-8 it appreciably declined to Rs. 16 crores because of a considerable increase in the import trade, decrease in exports and the separation of Burma. During the period from September 1931 to 31 December 1939, large exports of gold (over Rs. 351·40 crores) helped to maintain the visible balance in merchandise and treasure and enabled India to meet her large overseas obligations. The trade balance position substantially improved in the year 1939-40, when, mainly as a result of the war, the surplus of exports over imports was nearly Rs. 48 crores as compared with about Rs. 17·5 crores in 1938-9. It declined to Rs. 42 crores in 1940-1. The improvement in the export trade in the following year raised the favourable balance of trade to Rs. 79 crores. The figures for 1942, 1943 and 1944 are Rs. 101·40, crores, Rs. 86·17 crores and Rs. 50·65 crores respectively. The progressive decline in the favourable balance and its actual replacement at present (1951) by an adverse balance of trade is due to greater availability of consumer and capital goods and increased facilities for importing them. The need for remedying this state of affairs is urgent and the method of doing this is to increase exports which involves more efficient production leading to lower prices to attract the foreign customer. It is particularly necessary under present circumstances to promote exports to the dollar countries which would enable us to import a number of essential commodities which these countries can supply.

§24. **The 'drain' theory.**—India's habitual excess of exports over imports has given rise to the 'drain' theory, which at one time loomed large in economic discussions in the country. This excess has been looked upon by some people as a measure of the tribute paid by India to England owing to her political connexion. It is clear that for her various outgoings (*invisible imports* such as interest on capital borrowed abroad, salaries and pensions of officers payable abroad, profits of bankers, and shipping and insurance companies) India receives some kind of return; but the question is whether the return is in every way adequate. In an elementary book like this it is not possible to deal with the pros and cons of this controversy, and the interested reader must be referred to our larger work.[1] Apart from the question of adequate return, it is clearly desirable to lessen the amount of the Home charges and other debit items of India, say by reducing our borrowings abroad, by Indianizing the civil and military services, and generally by encouraging the economic development of the country, and equipping it with its own banking, shipping and insurance organization. From this point of view we may welcome the very considerable reduction in the sterling debt of India, a result of the repatriation of sterling operations carried out especially since the commencement of the 1939-45 war.[2]

§25. **Land-frontier trade.**—In spite of her extensive land frontier of 5,000 miles,[3] India's land-frontier trade is very limited owing to the existence of only a few openings or passes like the Bolan Pass on the North-West Frontier. There has from very ancient times existed a certain transfrontier trade with countries

[1] *Indian Economics*, vol. II, ch. vi.

[2] See also ch. vii.

[3] Excluding Burma.

like Afghanistan, Central Asia, Iran, Nepal and Tibet. The principal imports are fruits, vegetables, nuts, raw wool, raw silk and living animals. The main exports are cotton goods, sugar, raw cotton, tea and leather manufactures.

Internal Trade

§26. **Coasting trade.**—The internal trade of India falls into two sections: (i) the coastal trade, and (ii) inland trade. The total coasting trade of India amounted to Rs. 73·9 crores in 1939-40. The coasting trade between Burma and India—which has since its separation from British India in 1937 passed into the category of the foreign trade of India—is of special interest. Burma's imports are coal, cotton piecegoods, jute bags, pulse and betel-nut, while its exports are rice, kerosene oil, petroleum, candles, teakwood and timber. In the foreign as in the coastal trade of India, the principal ports are Bombay, Calcutta, Madras, Cochin, Tuticorin and Chittagong, the first three being more important than the others.

§27. **Inland trade.**—India, unlike the United Kingdom, is more vitally interested in her internal trade than in her external trade, having regard to her big size, large population, vast and varied resources and the diversity of her physical and climatic conditions. The improved means of communication and transport have also greatly added to the volume of this trade. According to the official publication *Inland Trade of India* for 1920-1, the total trade was nearly Rs. 1,500 crores. This according to some critics is an under-estimate. The total quantity of inland trade in the main commodities[1] was 828,219,000 maunds in 1939-40 as compared with 628,464,000 maunds in 1933-4. The importance of the inland trade is not always duly recognized, and disproportionate attention is paid to the external trade. There is a great need for a vigorous policy of fostering internal trade, especially since our external trade has latterly diminished considerably and is at the mercy of arbitrary forces which we cannot control.

The principal trade centres of India, apart from the three principal ports of Calcutta, Bombay, and Madras, are: Cawnpore, Delhi, Amritsar, Agra, Lahore, Benares, Lucknow, Nagpur,

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[1] The principal articles of inland trade are the great staples of agriculture such as grain, oil-seeds, cotton, jute, tea; by-products of agriculture such as raw hides and skins; minerals like coal, salt and kerosene; wood and timber; and manufactures.

Jubbulpore, Mirzapur, Madura, Gwalior, Dacca, Srinagar, Sholapur, Amraoti, Hyderabad (Deccan), Allahabad, Jaipur, Baroda, Bangalore and Mysore.

§28. **Commercial intelligence.**—As compared with more advanced countries like Germany, Japan and the United States, India's commercial intelligence system and trade organization are poorly developed. Increasing attention is, however, now being paid to this matter. There is the official organization consisting of the Department of Commercial Intelligence and Statistics, also the Indian Trade Commissioners in London, Hamburg, Milan and Osaka (before the war), Mombasa (East Africa), New York, Alexandria, Paris, Sydney (Australia), Toronto, Buenos Aires, Teheran, and Colombo. There is also an Indian Trade Agent in Kabul for Afghanistan. Besides these there are non-official bodies like the various European and Indian Chambers of Commerce which interest themselves in the industrial and commercial development of the country. It is needless to add that accurate and full information regarding foreign and inland markets and publicity regarding trade and production are essential for the proper expansion of our commerce and indusry.

SUMMARY

TRANSPORT

The prosperity of a nation depends greatly on a good system of communication, which breaks down economic isolation and is the very life of trade. It is essential for the proper utilization of a country's resources. The means of communication in India were very defective until the middle of the nineteenth century. A veritable economic revolution has been wrought since then by the construction of a network of railways and roads.

Railways.—Indian railway history has passed through various phases. Between 1844 and 1869 railways were constructed and managed by British companies enjoying guaranteed interest. This old guarantee system being found expensive was abandoned for a short period (1869-79) in favour of State construction and mangement, which proved ineffective. The guarantee system was re-adopted in 1879. It was, however, considerably modified in favour of the Government, which gradually acquired the ownership of most of the trunk railway lines, although management was largely left in the companies' hands. Railways, which were a losing concern until 1900, began to yield steady profits, and in 1908 the programme system, under which every year the State provided for a large capital expenditure on railways, was adopted. During the war of 1914-18 the railways suffered serious deterioration owing to the pressure of work and drastic reduction in the capital expenditure. A similar effect has been produced by the war of 1939-45.

On the recommedation of the Acworth Committee on Indian Railways railway policy was overhauled. Provision was made for larger capital expenditure. Under the policy of management of railways by the State recommended by the Committee, the management of four trunk lines has been transferred to the State. The railway budget was separated from the general budget. Owing to the severe trade depression of 1929-30, the railways had to face continual deficits and were unable to make their fixed contribution to the general revenues, between 1931-2 and 1936-7. Since then their financial position has improved particularly during the 1939-45 war.

There is a great need for further railway development in the country as many areas are still leading an isolated existence.

Roads.—Lord Dalhousie was responsible for a vigorous road policy as he was also mainly responsible for the railways. A Central Public Works Department and Provincial Public Works Departments were established, and trunk roads were constructed. Four such great roads exist, and also subsidiary roads, the total mileage of extra municipal metalled roads being 64,070. The mileage of *kachha* roads is 221,243.

The advent of motor transport and its remarkable development in the last decade have emphasized the need for more and better roads, especially in rural areas where their deficiency is keenly felt. Railways and roads are largely complementary. A new road policy was adopted (1929-30) on the recommendation of the Road Development Committee, which is characterized by a co-ordination of local road programmes and grants by the Central Government for this purpose to the provinces out of a Road Development Account to which the proceeds of an additional duty on petrol are credited.

The organization of the Central and Provincial Public Works Departments is described.

Water transport.—Water transport falls into two divisions: Inland waterways and Marine transport. Northern India is better served by natural waterways like the Indus and Ganges than peninsular India. Railways are a serious rival today to river transport.

In spite of her extensive coastline, a large volume of coasting and oceanic trade, and her reputation as a sea-faring country in the past, the present position of India's shipping and shipbuilding industries is very unsatisfactory. There is an urgent necessity to develop an Indian mercantile marine. The establishment of I.M.M.T.S. *Dufferin* on which marine training is given to Indian cadets is a step in this direction. The establishment in 1941 of an Indian shipbuilding yard at Vizagapatam is also to be welcomed.

AIR TRANSPORT

Although air transport is still in its infancy in India a certain amount of progress has been made and some of the principal towns are already connected by airways, not to mention the air-services between India and the rest of the world, or passing through India in normal times.

The 1939-45 war gave a further stimulus to aviation in India, as is shown by the expansion of the Indian Air Force and the establishment of the aircraft factory at Bangalore.

TRADE

India's foreign trade is very ancient in origin. Early trade was in rare and costly commodities. A large quantity of gold was even then imported.

During the Moslem period the overland trade of India received a stimulus. Internal communication was also improved. The discovery of an all-sea route to India brought the western European nations into touch with India, and in the struggle for the Indian trade which followed, England came out the victor. The nature of India's trade underwent a change and she came to export raw materials and foodstuffs and to import finished goods. From 1850 onwards the progress of railway and road construction in India and the opening of the Suez Canal gave a fillip to India's foreign trade. Towards the end of the last century India's trade with countries other than the United Kingdom (i.e. Germany, the U.S.A. and Japan) began to increase rapidly. The war of 1914-18 adversely affected India's foreign trade. After a temporary recovery, that trade received an even more serious setback as the result of the world economic depression. Since 1933-4 a partial recovery occurred with the exception of a temporary setback due to the 'recession' of 1937-8.

The 1939-45 war has naturally affected India's trade. The adverse effects produced in 1940-1 were largely counteracted in 1941-2 owing to increased trade with Commonwealth and Allied countries like the U.S.A.

The *main characteristics of India's foreign trade* are preponderance of manufactured goods on the import side and of raw materials and foodstuffs on the export side (this tendency has received a welcome partial corrective during the war of 1939-45); wide range of imports as compared with a restricted list of staple exports; predominant position of the United Kingdom; and excess of exports over imports of merchandise.

The *principal imports* are oils, cotton manufactures, machinery and millwork, metals and ores, grain, pulse and flour, vehicles (motor) and instruments. Sugar now occupies an insignificant position.

The *chief exports* are jute (raw and manufactured), cotton (raw and manufactured), tea, seeds, grain, pulse and flour, leather, metals and ores, hides and skins (raw), wool, oil-cakes, etc.

Before the outbreak of the 1939-45 war the U.K. had to meet with increasing competition from Japan, the U.S.A., Germany, etc., but the war resulted in an increase in India's foreign trade with Commonwealth countries.

The volume of India's re-export trade and land-frontier trade is at present very small.

Before the trade depression of 1929-33 India used to have a large trade balance in her favour, but owing to the serious reduction in her export trade in merchandise during the years of depression, this trade balance appreciably decreased. The total balance was maintained by large exports of gold.

The trade balance moved considerably in India's favour after the outbreak of the 1939-45 war.

The usual excess of exports over imports of goods has given rise to the 'drain' theory.

The *internal trade* of India includes the coastal and inland trade. The internal trade of a country of India's size and varied resources is much greater than the external trade. It needs to be still further developed.

The commercial intelligence system and trade organization in India are poor when compared with those of other countries. There has been some improvement in the last few years.

VI

INDIAN CURRENCY, PRICES AND BANKING

THE INDIAN CURRENCY SYSTEM

§1. **A brief history of the rupee.**—Before the introduction in 1835 of a uniform rupee as the sole legal tender in India, both gold and silver coins were in use. India was thus for a long time virtually on a bimetallic standard. Silver rupees were largely in circulation in Northern India under the Moslems while gold coins had an important circulation in Southern India, for instance, the gold pagoda in the Madras Presidency. The gold mohur had a limited circulation in Northern India. At the beginning of the nineteenth century there were numerous gold and silver coins in circulation owing to the absence of a single central power in India. Gradually, as the result of currency reform effected by the East India Company, a uniform rupee weighing 180 grains (a tola) $\frac{11}{12}$ths fine (i.e. 165 grains of pure silver and 15 grains of alloy) came to be established by 1835. Gold coins were at the same time demonetized, and the mints opened to the free coinage of silver. The Indian system thus came to be one of silver monometallism (silver standard), instead of the bimetallic system which had formerly prevailed.

This arrangement lasted till 1893, when the mints were closed to the free coinage of silver on private account on the recommendations of the Herschell Committee. This step was taken to meet the grave financial embarrassment of the Government of India arising from the fall in the gold price of silver and consequently in the gold exchange-value of the rupee since 1871. This increased their rupee liabilities in respect of the Home charges payable in sterling or gold in England. The gold value of the rupee, which was about 2*s.* in 1871, fell to about 1*s.* 2*d.* in 1892. The falling rupee also affected adversely our foreign trade and the investment of foreign capital in India. As free coinage was stopped from 1893 the rupee gradually rose to 1*s.* 4*d.* by 1898 and was fixed at that level on the recommendation of the Fowler Committee. In 1899 the British sovereign was made legal tender in India side by side with the rupee at the rate of £1 = Rs. 15 or Re. 1 = 1*s.* 4*d.*

§2. **The Gold Exchange Standard.**—The Fowler Committee had recommended a Gold Currency Standard for India, and a gold mint. But for various reasons what the authorities had ultimately come to adopt was the Gold Exchange Standard.[1] The value of the Indian rupee was kept at 1*s*. 4*d*. through the sale in London of rupee drafts (Council Bills) on the Government of India by the Secretary of State on the one hand, and on the other, through the sale of sterling drafts (called Reverse Councils), drawn on the Secretary of State and payable in sterling or gold in London against tender of rupees to the Government of India. The sale of both kinds of drafts was effected at rates approximating to 1*s*. 4*d*., allowing for the cost of importing gold into and exporting gold from India respectively.[2]

There were two different currency reserves maintained by the Government. One was the Gold Standard Reserve (established in 1900), consisting of the profits on fresh coinage of rupees issued to the public by the Government of India. The bulk of it was held in London and was mostly invested there in sterling securities. Sterling drafts (Reverse Councils) were sold in India against this reserve during the exchange crisis of 1907-8 in order to support the rupee. The other reserve was the Paper Currency Reserve, partly held in India, and partly in London, as more fully explained below.[3] Council Bills were sold partly against the Paper Currency Reserve in India and partly against the cash balances of the Government of India. The Chamberlain Commission of 1913-14 recommended the continuation of this system (the Gold Exchange Standard) although public opinion in India strongly desired a Gold Currency Standard.

The Indian currency system suffered considerable disturbance during the years of the war (1914-18). The price of silver in sterling rose so high that it became profitable to melt the rupee coins. The Government, therefore, raised the exchange-value of the rupee by successive steps and carried it to 2*s*. 4*d*. in December 1919. It should be noted in this connexion that since 1893 the rupee had come to be a token coin, its bullion or intrinsic value being less than its legal value of 1*s*. 4*d*. Thus before the war its intrinsic value was about 10*d*., while its legal value was 16*d*. Silver having further fallen in value, the intrinsic value of the rupee today is only about 8*d*.

The Babington Smith Committee, appointed in 1919, recommended a 2*s*. gold rupee. They thought that the rise in the value of silver had come to stay and that, in order to maintain the token character of the rupee, the high rate they recommended was essential. The Government's attempt (in 1920) to keep the rupee stable at this rate by the sale of Reverse Councils failed, and the rupee was left to itself for some time.

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[1] See *Elementary Principles of Economics*, ch. x, § 15.

[2] Ibid , ch. xii, §16.

[3] See §8.

§3. **Gold Bullion Standard.**—In 1925, the Hilton-Young Commission was appointed. It recommended the Gold Bullion Standard for India instead of the Gold Currency Standard which was favoured by the Finance Department of the Government of India and by several Indian witnesses who gave evidence. The Commission also recommended a gold value (8.47 grains) for the rupee corresponding to 1*s.* 6*d.* (gold), although there was a strong opinion in the country in favour of the pre-war ratio of 1*s.* 4*d.* (i.e. 7.53 grains of gold). This gold value was to be maintained by the proposed Reserve Bank of India as the new currency authority, which was, like the Bank of England, to buy and sell gold bullion in quantities of not less than 400 ounces or 1,065 tolas. Thus anyone who took 22,629 rupees to the Reserve Bank was to obtain 400 ounces of gold in the form of bars (the rate being approximately Rs. 21-7-9 for a tola of gold allowing for the cost of transporting gold to London).

In March 1927, accordingly, a new Currency Act was passed which provided for the 1*s.* 6*d.* ratio as recommended by the Hilton-Young Commission. Until the establishment of the Reserve Bank the Government of India was to be in charge of the currency system and was to sell gold, or, at its option, sterling exchange (i.e. drafts payable in sterling in London) in quantities of not less than 400 ounces of gold at the rate of Rs. 21-3-10 for a tola of gold, the sterling rate being 1*s.* $5\frac{49}{64}$*d.*, allowing for the cost of transport of gold from Bombay to London. It was also to issue rupees and notes against gold in the form of bars containing not less than 40 tolas (or 15 oz.) of fine gold, at the rate of Rs. 21-3-10 (1*s.* 6*d.* per rupee). The sovereign ceased to be legal tender, although the Government undertook to give Rs. 13-5-4 for every sovereign received. Some approaches towards the Gold Bullion Standard were thus made, its introduction in a full-fledged form being postponed till after the establishment of the Reserve Bank. Till then the Government could sell sterling exchange (as it did in practice) on London, instead of delivering gold itself in India. To that extent it was still a Gold Exchange Standard.

§4. **The rupee linked to sterling.**—This system remained in operation until 20 September 1931, when England went off the Gold Standard and India followed suit. As announced at the same time by the Secretary of State, the rupee was linked to sterling at 1*s*. 6*d*., which remains the current official rate today. The Reserve Bank of India Act of 1934 legalized this rate and made the Bank responsible for maintaining the rupee at 1*s*. 6*d*. For this purpose, the Bank had to buy sterling in India at a rate not higher than 1*s*. $6\frac{3}{16}$*d*. for a rupee and sell sterling for immediate delivery in London at a rate not below 1*s*. $5\frac{49}{64}$ *d*. for a rupee, provided the amount of sterling in both cases was not less than £10,000. India's present monetary standard thus came to be the Sterling Exchange Standard.

§5. **The ratio controversy.**—Recent Indian currency history has been characterized by a prolonged controversy regarding the proper rate or ratio to be adopted for the rupee in terms of sterling. The Hilton-Young Commission (1926) argued that at the ratio of 1*s*. 6*d*., which they recommended, prices in India had already attained a substantial measure of adjustment with world prices, so that any change in the ratio would mean widespread economic disturbance. The criterion suggested by the Commission is universally accepted: the difference of opinion was not on point of principle but on point of fact. A strong body of opinion held that the 'substantial adjustment' assumed by the Commission had not in fact occurred, and if 'widespread economic disturbance' was to be avoided a lower ratio, preferably the old ratio of 1*s*. 4*d*., should be adopted. The question is a most controversial one on which it is impossible to achieve unanimity. One of the things, however, that we must bear in mind is that if a certain ratio has been maintained for a fairly long time, the presumption is that wages, prices, etc. have become adjusted to it and that it would be unwise to disturb it unless conditions have obviously changed again, necessitating the adoption of some other ratio. Another thing to be borne in mind is that the reactions, good or bad,[1] of a given change in the ratio are of a temporary character, though people often argue as if the advantages and disadvantages would continue to accrue indefinitely.[2] In 1938, an unsuccessful attempt was made by non-official members of the Central Legislative Assembly to secure an alteration of the rupee ratio.

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[1] *Prima facie* a higher ratio (i.e. 1*s*. 6*d*. as compared to 1*s*. 4*d*.), it is argued, is favourable to the importer and adverse to the exporter, because the importer has to pay fewer rupees for a given sterling debt, while the exporter receives fewer rupees for a given sterling claim. The higher ratio further lightened the burden (in rupees) of the Home charges so far as the Government was concerned, while the lower ratio added to it.

[2] See, *Elementary Principles of Economics*, ch. xii, §17.

§6. **The sterling link and exports of gold.**—The *linking of the rupee to sterling* mentioned in §4 above was strongly opposed by certain critics of Government on the ground that India should not tie her currency to that of any *one* country, since in that case she has to share in the economic fluctuations to which that country may be subjected. It was further contended that the sterling link (1*s*. 6*d*.) gave British goods a preference in Indian markets and deprived India of the freedom to devaluate(reduce the ratio of) her rupee (in terms of sterling and other currencies) so as to raise the rupee prices for the benefit of her agriculturist population. In defence of the sterling link it was maintained that India, being a debtor country with large sterling liabilities (Home and other charges) to be met annually, could not with advantage sever the link between the rupee and sterling and leave the rupee to itself. It was also held that fixity of sterling was very convenient to our foreign trade, the bulk of which is with sterling-using countries.

Another controversial question related to the large *exports of gold* from India since Great Britain went off the Gold Standard in September 1931, which had exceeded Rs. 351·40 crores by the end of December 1939.[1] As pointed out in the previous chapter these exports, to some extent, took the place of the exports of goods and served to maintain the favourable balance which was essential if India is to meet her liabilities abroad. The price of gold in rupees (as in sterling) had greatly increased even before the commencement of war in September 1939, being about Rs. 37-8 per tola as compared with Rs. 22 before the exports commenced; this tempted those who hoarded gold to sell it, and the high world price led to its export. Also, owing to economic depression, many persons were compelled to part with their gold. This was called 'distress gold'. How much of the gold exported was 'distress gold' is a matter for argument. Some critics took an alarmist view of these exports of gold and advocated the levy of a tax on exports of gold or their complete prohibition, with a view to keeping the gold in the country and strengthening the gold reserves of the Reserve Bank of India. The objection to this was that it would be very costly to buy gold at the high rate prevalent then and that such purchases would have further led to a great deal of speculation.

§7. **India joins the International Monetary Fund.**—On

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[1] Later figures are not available.

27 December 1945, India became a member of the International Monetary Fund and subsequently notified the Fund that there was to be no change in the par value of the rupee. On the basis of the prevailing exchange rates, viz. Re. 1=1*s.* 6*d.* and £1= $ 4·03 and one fine ounce of gold = $ 35, the par value of the rupee in terms of gold was ·0086357 ounces, i.e. 4·145142857 grains of fine gold. From the above data the relation between the rupee and the U.S. dollar can be expressed as Re. 1= 30·225 cents.

§8. **The rupee devalued.**—On 19 September 1949 England devalued the pound sterling in terms of the dollar and declared that henceforward the pound sterling was to be equivalent to 2·80 dollars instead of 4·03 dollars. India followed suit by devaluing the rupee proportionately and the new rate adopted was Re. 1= 21 U.S. cents (instead of the old rate of Re. 1= 30·225 cents, the exchange rate between the rupee and the pound sterling remaining unchanged at one shilling six pence per rupee. The reason for the devaluation was that India's trade being largely with sterling-area countries, the appreciation of the rupee in terms of sterling would have undermined her competitive position and endangered the markets for most of her exports.

Pakistan decided not to devalue the Pakistan rupee as its balance of payments position does not necessitate this step. The Pakistan rupee remains equal to Rs. 4·03 dollars with the result that 100 Pakistan rupees have now become equivalent to 144 Indian rupees. Imports from Pakistan will therefore be 44% dearer in India than before.

§9. **The paper currency system.**—We shall now give a brief account of the paper currency system in India. The Paper Currency Act of 1861 established Government monopoly of issuing currency notes payable to the bearer on demand. The three Presidency Banks[1] had the privilege of issuing their own notes payable to bearer on demand. These, however, had only a very limited circulation. Government Currency Notes were issued in denominations of Rs. 5, 10, 50, 100, 500, 1,000, and 10,000. The country was divided into seven circles (Calcutta, Bombay, Madras, Cawnpore, Lahore, Karachi and Rangoon). Notes were legal tender only in their respective circles of issue and convertible into rupees at the Currency Offices. In order to popularize them, they were gradually made universal, i.e. legal tender throughout India : now all except Rs. 500[1] and above are universal notes. Facilities for converting the notes into rupees at the various Government Treasuries and branches of the Imperial Bank of India were also extended to the holders of notes.

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[1] See §21.

§10. **The paper currency reserve.**—Until 1920, the paper currency reserve held against the currency notes was regulated on the British model of 1844, i.e. the fixed fiduciary reserve system.[2] Thus before the war of 1914-18 the maximum reserve which could be invested in securities was Rs. 14 crores (10 crores being rupee securities of the Government of India and 4 crores, sterling securities in England). The remainder was held partly in silver coins (including bullion), and partly in gold (coin and bullion). A portion of the gold was held in London, all the coined rupees being held in India. Before the war the total gross circulation of notes issued was Rs. 66·12 crores. During the war (1914-18) it was greatly increased and stood at Rs. 180 crores at the end of 1919. Much of this increase was effected against sterling securities (British Treasury Bills) which were transferred to the Secretary of State for India in London in payment of war expenditure incurred by the Government of India on behalf of the British War Office. The maximum permissible invested Reserve stood at Rs. 120 crores in September 1919. Rs. 100 crores of this was in British Treasury Bills.

In 1920, on the recommendation of the Babington-Smith Committee, the proportional reserve system was adopted, the Paper Currency Act of that year providing for a 50% metallic reserve against notes. The same Act authorized the issue of 'emergency' currency during the busy season (when owing to the harvesting and marketing of crops there is a large seasonal demand for currency) up to Rs. 5 crores,[3] as a loan to the Imperial Bank against the security of inland trade bills (*hundis*) accepted by the Bank.

§11. **Transfer of note issue to the Reserve Bank.**—As recommended by the Hilton-Young Commission, the issue and management of paper currency were transferred to the Reserve Bank of India on its inauguration in April 1935. Reserve Bank of India notes were first issued to the public in India in January 1938, when supplies of Rs. 5 notes became available. Rs. 10 notes were introduced in February and Rs. 100 and Rs. 1,000 notes in May 1938. The bank has decided not to issue Rs. 50 and 500 notes, as their circulation is negligible. The existing Government currency notes will be eventually replaced by these new notes which are guaranteed by the Government of India and, like the old notes, are convertible into rupees on demand. The old separate Gold Standard and Paper Currency Reserves have been amalgamated into one Currency Reserve which has been transferred to the Reserve Bank's Issue Department (which, as in the Bank of England, is to be kept separate from the Banking Department). In the Reserve Bank of India Act of 1934, it is provided that not less than 40% of the assets of the Reserve held against notes, shall consist of gold coin, gold bullion, or sterling securities, the amount of gold coin and bullion being not less than Rs. 40 crores in value. The amount of rupee securities of the Government of India shall not exceed 25% or Rs. 50 crores, whichever amount is greater. The remaining assets may be held in rupee coin and commercial bills of exchange and promissory notes payable in India. Not less than $\frac{17}{20}$ths of the gold shall be held in India. The Bank is authorized to reduce the Gold Reserve below 40% under certain circumstances, and must in that case pay a tax on the deficiency.

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[1] Currency Notes of Rs. 500 and Rs. 1,000 withdrawn in January 1946.

[2] See *Elementary Principles of Economics*, ch. xi, § 18 (i).

[3] The limit was raised to Rs. 12 crores in 1923.

§12. **Subsidiary coinage.**—Apart from full legal tender standard coins (the silver rupee and half-rupee) and notes, there are in India certain subsidiary coins, which are all legal tender up to one rupee, namely, the four-anna and two-anna silver and nickel pieces, the one-anna nickel piece, and the various bronze coins—the pice ($\frac{1}{4}$ anna), the two-pice ($\frac{1}{2}$ anna) and the pie ($\frac{1}{12}$ anna).

§13. **Indian currency during World War II.**—The Indian currency and the financial system stood the strain at the outbreak of World War II remarkably well and confidence in the paper currency was generally maintained. The rupee-sterling exchange has also remained firm in the neighbourhood of 1*s*. 6*d*., thanks to the large holding of sterling securities by the Reserve Bank of India in consequence of the favourable balance of trade and the sterling payments received in England for war purchases made in India. There has been a remarkable expansion of paper currency, the active circulation of which increased from Rs. 186 crores in September 1939 to Rs. 1,094·66 crores at the end of 1944-5.

Following the adverse war developments in May and June 1940 there was a heavy demand on the Reserve Bank for the encashment of notes into rupee coins and the Government found it necessary to issue one-rupee notes through the Reserve Bank to relieve the situation. These notes are to be treated as if they were coin. Another measure adopted for conserving the silver resources of the country is the lowering of the standard of the fineness of the silver content from $\frac{11}{12}$ths to $\frac{1}{2}$ of the four-anna piece, the half-rupee and the rupee itself.

Restrictions were also imposed on the export and import of gold and measures of exchange control for regulating dealings in foreign exchange have been instituted and put into force through the agency of the Reserve Bank of India.

Prices in India

§14. **Movements of Indian prices.**—The table on page 129 indicates the general course of prices in India since 1861, the year 1873 being taken as the basic year. The general index number is based on the wholesale prices of 39 articles (28 exported and 11 imported articles).

We indicate below the general character of the price movements between 1861 and 1893.

(i) *Rising prices* (1861-7).—The American Civil War led to a scarcity of cotton for the Lancashire mills. The resulting high price caused a great influx of precious metals into India and extensive coinage of silver rupees, which was followed by a considerable rise of prices in accordance with the quantity theory of money.[1]

(ii) *Falling prices* (1866-83).—Except for a sudden jump in the prices of food-stuffs between 1876 and 1879 owing to a great famine, prices were falling between 1866 and 1883. The general fall in earlier years may be regarded as a reaction against the previous high prices, and in later years, as a counterpart of the general downward movement of prices in western countries. This was attributed to the slackening of gold production at a time when there was increased demand for it, and to the growing volume of trade under the stimulus of improvements in the arts of production.

(iii) *Rising prices* (1883-93).—The fall in prices was arrested in India owing to the fall in the price of silver, causing heavy rupee coinage before the mints were closed in 1893 and the consequential depreciation of the rupee. The output of silver outpaced the production of commodities and ushered in an era of rising prices, which may be regarded as continuing right up to

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[1] See *Elementary Principles of Economics*, ch. x, §29.

1920 (except for the brief interval 1893-9 when prices went down somewhat because of the contraction of currency due to the closing of the mints).

INDEX NUMBERS OF PRICES IN INDIA

(Price in 1873 = 100)

Year	General Index Number for 39 articles	Year	General Index Number for 39 articles
1861	90	1923	215
1865	107	1924	221
1870	102	1926	216
1875	94	1928	201
1880	104	1929	203
1885	87	1930	171
1890	100	1931	127
1895	104	1932	126
1900	116	1933	121
1905	110	1934	119
1910	122	1935	127
1913	143	1936	125
1914	147	1937	136
1916	184	1938	132
1918	225	1939	142
1919	276	1940	163
1920	281	1941 (July)	200
1921	236		

§15. **Rising prices from 1890 to 1912.**—In 1912 the Government of India appointed Mr K. L. Datta to inquire into the causes of the rise in prices. The period covered by the inquiry was 1890-1912, during which time there had been a general and continuous rise in prices throughout India, particularly since 1905. The Index Number of Prices (taking 1890-4 as the base period=100) rose to 116 in 1905, and to 141 in 1912. During this period prices indeed rose all over the world, but the rise was higher in India than anywhere else.

(i) *Causes peculiar to India.*—According to the Prices Enquiry Committee the causes of this rise which were peculiar to India were (*a*) shortage in the supply of agricultural products and raw materials; (*b*) increase in the demand for these commodities; (*c*) development of railways and other communications in India, in consequence of which the rise in prices in one part of the country was felt in other parts; (*d*) improvement in the general monetary and banking facilities and increase of credit; and (*e*) increase in the volume of the circulating medium. Currency inflation (under the Gold Exchange Standard) on account of the excessive coinage of rupees on occasions (e.g. in 1905-7) to pay off the Council Bills sold by the Secretary of State was one of the important causes of the rise in prices in India.

(ii) *World factors.*—Prices in India also rose during this period owing to the operation of the following world factors: (*a*) shortage in the supply of, and increase in the demand for, staple commodities in the world's markets; (*b*) the increased supply of gold from the world's mines; (*c*) development of credit; destructive wars and larger standing armies and navies.

§16. **Prices during the war of 1914-18.**—The tendency of prices to rise was greatly accentuated during the years 1914-20 by the conditions created by the war. Prices rose all over the world, largely on account of the general inflation of currency.[1] In India itself there were large issues of new rupees and currency notes to liquidate the trade balances in favour of India and to meet the war expenditure incurred by the Government. Taking prices in 1914 as 100, the index number of Calcutta wholesale prices rose to 201 in 1920. This rise, while it was unprecedented for India, was smaller than in Germany, France or even England. One reason for this was that the inflation of currency was far less in India. The prices of food grains and raw materials rose sharply because of the increased demand for them from the Allies, and partly also because of agricultural scarcity in India in 1918 and 1920. The prices of imported goods like cloth and glass rose because of the serious shortage of imported manufactured articles.

§17. **Slump in prices.**—Having reached their maximum in 1920, prices began to decline from 1921 in India as in the rest of the world, following the contraction of currency, increased production and revival of trade.

The downward movement of prices was greatly accelerated after the Wall Street collapse in America (October 1929), which is usually regarded as the beginning of the last prolonged world economic depression. The great drop in prices all over the world during the years of the crisis (1929-33) has been attributed partly to the shortage and maldistribution of gold, which led to contraction of currency and credit, and partly to overproduction in comparison with the normal rate of consumption, of raw materials as well as of manufactured articles, especially of raw materials. The fall was greater in agricultural countries like India than in industrial countries like England. As compared with 1914 (100), the Calcutta wholesale price index number for September 1929 was 143. In September 1931, when Britain went off the Gold Standard, the index number had come down to 91, i.e. actually below the pre-war level. Owing to the rupee being linked to sterling, prices rose for a time and the index number stood at 98 in December 1931. This advantage was not maintained, and the index number fell to 88 in the following December (1932). In March 1933 it dropped to 83, but thereafter the price level steadied itself and in December 1933 the index number stood at 89. After fluctuations within a narrow margin for the next two years, there was an improvement in prices owing to the world-wide re-armament campaign and boom conditions, especially during the first eight months of 1937 when the index number stood at 105. As a result of the 'recession' the price index dropped to 94 in April 1938. Subsequently there was a limited recovery, the index figure rising to 100 in September 1939.

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[1] See *Elementary Principles of Economics*, ch. x, §23 (iv).

§18. **Rise of prices since 1939.**—The outbreak of the war in September 1939 was followed in India as in most other countries by a general rise in commodity prices. Barring the temporary setback to the prices in 1940 following the loss of the continental markets, the Calcutta index number has shown an upward tendency, having risen to 115 in 1939-40, 119 in 1940-1 and 144 in 1941-2. It touched the peak of 353 in September 1943 and gradually declined to 304 by March 1944, moving thereafter within a comparatively narrow range of 295 in May 1944 and 310 in March 1945. The prices of food grains and of manufactured articles have risen still higher. In order to check speculation and profiteering, the Government have instituted price-control of necessaries of life since the outbreak of the war. Dislocation of normal sources of supply, serious transport difficulties, increased cost of production, diminished imports, extensive purchases by Government, speculation and private hoarding and above all the tremendous increase in the volume of paper currency were the main causes of the rise in prices during the war. The stoppage of the war did not interrupt the rapid increase in prices which continued their upward movement till October 1948. After that till March 1949 there was a downward trend. But from April 1949 the trend was steadily upward till October 1949. From that time till January 1950 prices remained stationary. Since then the movement has again been upwards. The average index number stood at 405.2 in July 1950 (Base Year 1939=100). The only way of arresting this tendency is to increase the supply of goods in the market by intensified domestic production and more liberal imports of essential goods from abroad.

§19. **Effects of rising and falling prices in India.**—We have already discussed the effects of rising and falling prices[1] and the conclusions reached are of course applicable to Indian conditions. We may, however, make a few supplementary remarks. It is sometimes argued that India, being a debtor country, benefits from high prices and stands to lose by low prices, especially of the articles she exports. The cultivators, who form the bulk of the population, benefit from high prices and suffer when prices are low as today. There are, however, one or two considerations which must be borne in mind in this connexion. In the first place, there is no guarantee that, when prices rise, the cultivator will be able to realize in practice all the possible advantages. His profits, it is well known, are liable to be intercepted by a variety of middlemen. Then again, to the extent that the cultivator consumes the produce he raises, he is not affected either by high or low prices. There is no doubt, however, that the cultivator suffered immensely during the years 1929-38 owing to the big drop of prices. His fixed charges (namely, land revenue, rent, interest, etc.) became more burdensome, and his purchasing power was greatly reduced. The middle-class persons living on fixed incomes in India suffered during and after the war of 1914-18. During the years of the economic depression, the prevailing low prices offered them a welcome relief, but on the whole they did not escape the adverse effects of the depression, owing to the difficulty of finding employment. Falling prices also prejudicially affected the manufacturing and commercial classes by reducing their profit margins. Similarly, in the case of the wage-earners, although real wages might have gone up owing to falling prices, the employment available became smaller in volume and more irregular in character.

The falling prices during the nine years 1929-38 produced other serious effects on the economic life of the country. The reduction in the purchasing power of the agriculturist had injurious reactions on industrial enterprises, professional classes, internal and external trade, and on public finances. The rising prices during the war have considerably altered the situation. The great increase in the cost of living has created hardship for the middle class and especially the wage-earners, and relief in the form of dearness allowances has had to be granted to the latter class. On the other hand the agriculturist has on the whole not gained by the war owing to the temporary setback to the prices of certain agricultural staples like cotton and oil-seeds and this, together with the shortage of food grains, has made it necessary as well as profitable to grow more food-crops in the country.

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[1] See *Elementary Principles of Economics*, ch. x, §34.

INDIAN BANKING

§20. **The main constituents of the Indian money market.**—The money market and the banking system of India are made up of the following principal constituents: (i) the Reserve Bank of India, (ii) the Imperial Bank of India, (iii) the Foreign Exchange Banks, (iv) the Indian Joint-Stock Banks on European lines and (v) the indigenous bankers called by different names in different parts of the country (e.g. Shroffs, Multanis, Chettis, Banias, Marwaris, Mahajans, Sahukars). The first four constitute the central part or the European money market; the last is the bazaar part or indigenous money market. Co-operative Banks occupy a middle position. Other smaller constituents of the money market are Postal Savings Banks, Land Mortgage Banks, Industrial Banks, and indigenous credit agencies like Loan Offices in Bengal and *Nidhis* and *Chit* Funds in the Madras Presidency. We shall now consider the more important constituents of the Indian money market, but before we do so it is necessary to give a brief history of banking in India.

§21. **Indigenous banking.**—Indian banking is as ancient as Indian commerce. From times immemorial the country has been served by its indigenous bankers, and the *hundi*,[1] which is their principal credit instrument and which is analogous to the western bill of exchange, has been in use in this country for several centuries. India possessed a system of indigenous banking many centuries before the science of banking was developed in Europe. Although the early Muslim invasions of India initiated a period of disturbance, indigenous banking continued to flourish during the Mogul period. The indigenous bankers performed numerous functions. They accepted deposits, gave loans, acted as State financiers and mint officials, changed money, dealt in *hundis*, and financed the trade of the country. The East India Company for a time patronized them. Towards the end of the eighteenth century several circumstances appeared which were adverse to their continued prosperity, such as the political disorder in the country; the competition of the European Agency Houses in Calcutta and Bombay, which also did banking business and received the patronage of the East India Company; the establishment of European types of banks such as the Presidency Banks; and the introduction of a uniform currency which hit one important part of their business, namely money-changing. The indigenous bankers, however, have managed to survive in spite of these difficulties. They continue to be indispensable to the rural community and satisfy the banking needs of about 90% of the people. The Indian banker is to be found in almost every village, town and city in the country. He finances the agriculturist, the petty artisan and small trader, assists in the movements of the crops to the consuming areas or to the ports, and helps in the distribution of all kinds of goods in the interior of the country. He accepts deposits, although unlike the modern bank he does not usually allow them to be operated by means of the cheque. He issues, buys, and sells *hundis*, either for remitting funds from one centre to another, or for financing trade. His contact with European or the joint-stock banks in the country is very slight. Ordinarily, he operates in the money market with his own funds independently of them, and indeed often competes with them. But during the busy season, when he has laid out all his funds, he borrows additional funds from the Imperial Bank or other banks in the commercial towns and gets the necessary accommodation either by having his *hundis* discounted by these banks or by borrowing against the security of promissory notes or goods. The Imperial Bank and other joint-stock banks extended these facilities only to well-known shroffs who are on their list of approved borrowers. During the busy season, therefore, the bazaar *hundi* rates charged by one shroff to another follow the bank rate or money rates charged by banks, being higher than the latter. During the slack season, however, the situation may be the reverse.

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[1] See Fig. 1.

Since the Reserve Bank is now established as the central currency- and credit-controlling authority for the whole country, it is thought necessary that the Bank should have a more intimate contact with the indigenous bankers, so as to be able both to help them and to control their banking or credit operations more or less as in the case of the Scheduled Banks.[1] As required by the Reserve Bank of India Act (1934) the Bank recently (1937) submitted proposals in this behalf. But the conditions laid down by the Bank as regards the owned capital, winding up of non-banking business, keeping of accounts, etc., were not acceptable to the indigenous bankers, and the problem thus remains unsolved.

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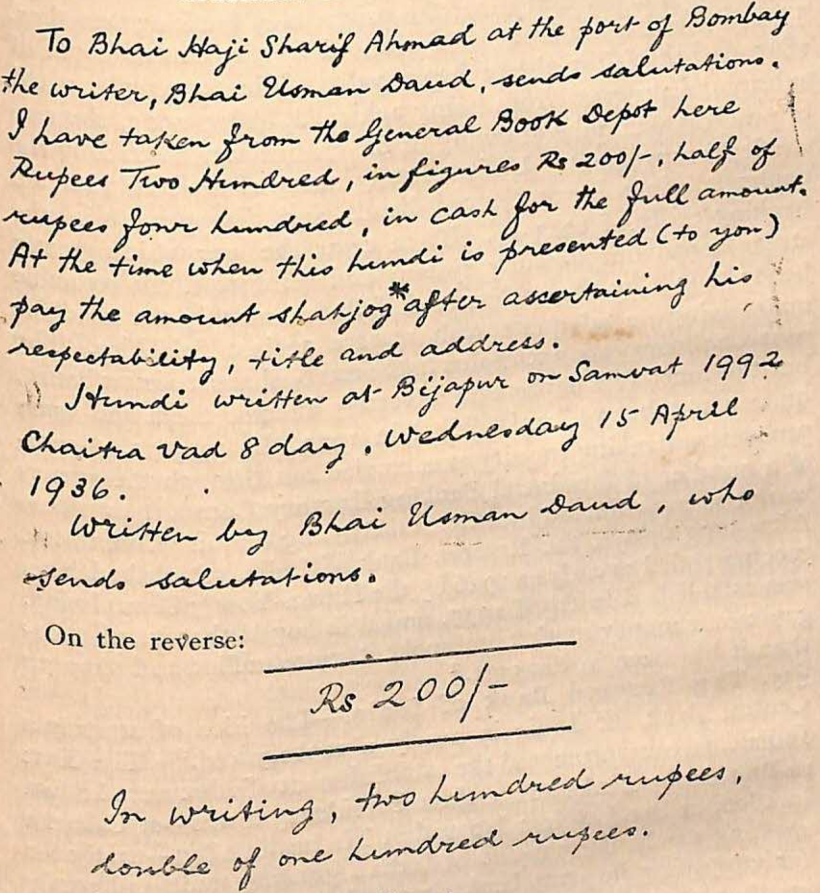
[1] See §23.

SPECIMEN OF A *Hundi* (translated)



To Bhai Haji Sharif Ahmad at the port of Bombay
the writer, Bhai Usman Daud, sends salutations.
I have taken from the General Book Depot here
Rupees Two Hundred, in figures Rs 200/-, half of
rupees four hundred, in cash for the full amount.
At the time when this hundi is presented (to you)
pay the amount shahjog* after ascertaining his
respectability, title and address.
Hundi written at Bijapur on Samvat 1992
Chaitra vad 8 day, Wednesday 15 April
1936.
Written by Bhai Usman Daud, who
sends salutations.

On the reverse:

Rs 200/-

In writing, two hundred rupees,
double of one hundred rupees.

FIG. 1.

§22. **The European system of banking.**—The European system of banking was first introduced in India by the Agency Houses of Calcutta which had a banking side as an aid to the conduct of their main business of commerce. The Bank of

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* A *shahjog hundi* is payable only to a *shah*, i.e. a respectable person known in the bazaar: it does not correspond to a 'bearer' cheque, and in point of safety is comparable to a crossed cheque.

Hindustan, promoted by Messrs Alexander & Co., is believed to be the first purely banking institution on European lines.[1] The Agency Houses came to grief in the commercial crisis of 1829-32. On their ruins arose the Union Bank, which in turn disappeared in 1848. Until 1860, when the principle of limited liability was recognized for the first time, the progress of banking was slow. The financial crisis in Bombay caused by the cotton boom of 1865, and the fall in the exchange value of the rupee, prevented substantial progress from being achieved. After 1905, the rate of progress was quicker owing to the enthusiasm created by the swadeshi movement. Unfortunately many of the newly started banks fell into inexperienced hands and disappeared in the banking crisis of 1913-14. Then came the war which greatly strengthened our banking system and reinforced the valuable lesson taught by the earlier bank failures, namely the need for maintaining an adequate cash reserve against liabilities. The post-war boom gave a stimulus to the establishment of new banks, but the inevitable depression adversely affected them and again quite a number of banks failed in 1923. In 1929-31, a comprehensive banking inquiry was carried out through the agency of a number of Provincial Banking Enquiry Committees whose work was co-ordinated by a Central Banking Enquiry Committee. After long delays, the Reserve Bank of India, which had been recommended as early as 1926 by the Hilton-Young Commission, was established in April 1935, and it is hoped that it will reorganize our money market and make it more unified and stronger than it has been in the past.[2]

§23. **The Reserve Bank of India.**—The idea of starting a Central Bank for India is nearly a century old.[3] The East India Company promoted the establishment of what were known as Presidency Banks at the three Presidency towns—at Calcutta in 1806, at Bombay in 1840 and at Madras in 1847—partly for meeting the banking needs of India's growing trade and partly for supplying its own banking requirements. The project of starting a great all-India bank, mooted in London in 1836, proved abortive. The proposal to amalgamate the three Presidency Banks was first made in 1867, but largely owing to mutual jealousies among the Banks it could not be carried through. The question was discussed from time to time, until at last the bank failures of 1913-14 and the war of 1914-18 brought home the urgent necessity of expediting the establishment of a Central Bank. Accordingly, by the Imperial Bank Act of 1920, the three Presidency Banks were amalgamated into the Imperial Bank of India in 1921, which was also invested with limited central banking functions. The Bank established a hundred new branches in fulfilment of its agreement with the Government of India, and in fact the stipulated minimum has been exceeded, and the Bank now controls 161 branches. It was the principal authority for controlling credit by the machinery of the Bank Rate (i.e. the rate charged by the Bank on demand loans against Government securities). The Hilton-Young Commission, however, recommended the establishment of an altogether new bank on the ground that the Imperial Bank was largely a commercial bank with numerous branches and that it should be left free to pursue its career as the supplier of modern banking facilities throughout the country. Accordingly, Sir Basil Blackett introduced his first Reserve Bank of India Bill in 1927. Owing, however, to acute differences of opinion regarding the ownership of the Bank and the constitution of the Central and Local Boards, the first Bill as well as the second Bill (1928) had to be abandoned.[1] Finally, as recommended by the Round Table Conference, the Reserve Bank of India Act was placed on the Statute Book in 1934 and the Bank was formally inaugurated on 1 April 1935.

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[1] The establishment of the Presidency Banks from 1806 onwards and of the Exchange Banks from about the middle of the nineteenth century is referred to in the following sections.

[2] Reference has already been made to the starting of the Co-operative Banks and Land Mortgage Banks in ch. iii, §§22 and 24.

[3] We have already discussed the functions of Central Banks and their credit policy in *Elementary Principles of Economics*, ch. xi, §§20-5.

The Reserve Bank of India was *a shareholders' bank*. Its capital, fully paid-up, amounted to Rs. 5 crores divided into shares of Rs. 100 each. It had five Local Head Offices at Bombay, Calcutta, Madras, Delhi and Rangoon, and five separate share registers were maintained. The Bank was required to establish a London branch. The general management of the Bank was entrusted to a Central Board of Directors which consists of 16 members as follows: the Governor and two Deputy-Governors appointed by the Governor-General-in-Council after considering the recommendations of the Central Board; four Directors nominated by the same authority (to represent the general tax-payer and important economic interests in the country); eight Directors elected on behalf of the shareholders on the various registers; and one Government official. There are also Local Boards to advise the Central Board. No Director of the Central Board or member of a Local Board could also be a member of the Central or of a Provincial Legislature—a clause that had been responsible for the bitter controversies and delays over the earlier Reserve Bank Bills.

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[1] The controversy raged round two issues: (i) whether the Reserve Bank should be a State bank (owned by the State) or a shareholders' bank, and (ii) whether members of Central and Provincial Legislatures should be allowed to be on the Central and Local Boards of the Reserve Bank. The official bills proposed a shareholders' bank free from political influence as recommended by the Hilton-Young Commission.

The functions of the Reserve Bank, were to accept deposits without interest, and purchase (rediscount) and sell bills of exchange and promissory notes endorsed (signed) by the Scheduled Banks,[1] or by Provincial Co-operative Banks. The Reserve Bank was to buy sterling from and sell sterling to the Scheduled Banks; also advance short-term loans to them and to the Central and Provincial Governments, Indian States, and local authorities; purchase and sell Government securities, or silver and gold bullion on account of the Government; borrow money for short periods of a month or less from the Scheduled Banks. It was authorized to issue Bank Notes payable to the bearer on demand and to carry out open-market operations[2] by directly purchasing or selling, in the open market, eligible paper (bills of exchange and promissory notes) or sterling or by making direct loans and advances to the public and thus to control the volume of credit and make its credit or Bank Rate policy effective.[3]

The Reserve Bank of India was not permitted to engage in trade or have a direct interest in a commercial or industrial undertaking, or advance money on immovable property, or allow interest on deposits. The last prohibition was intended to prevent the Reserve Bank from competing with the ordinary commercial banks.

The Central Banking functions of the Reserve Bank were to transact Government business (to receive moneys and make payments for the Government), and to carry out its exchange, remittance and other banking operations including the management of the public debt. The Bank was to have the sole right of issuing notes. As already stated, as the currency authority, it was required to buy and sell sterling with a view to maintaining the exchange value of the rupee provisionally at 1*s*. 6*d*. sterling. Every Scheduled Bank was required to maintain with the Reserve Bank balances amounting to not less than 5% of its demand liabilities and not less than 2% of its time liabilities. This was intended to enable the Reserve Bank to centralize the banking reserves of the country and thus to control the issues of credit by the Scheduled Banks. The latter were also to submit weekly returns of their business to the Reserve Bank.

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[1] These are banks, each with a paid-up capital and reserve of Rs. 5 lakhs and over, shown in a separate schedule to the Reserve Bank Act.

[2] See *Elementary Principles of Economics*, ch. xi, §24.

[3] The Bank Rate is now the standard rate at which the Reserve Bank is prepared to buy or discount bills of exchange or other commercial paper eligible for purchase. It is thus a discount rate.

The Imperial Bank was appointed the sole agent of the Reserve Bank for a period of fifteen years, and was to manage the Government's Treasury business at its upcountry branches.

The Reserve Bank itself was required to make a weekly return to the Governor-General-in-Council of the accounts of its Issue and Banking Departments.

As provided for in the Reserve Bank Act, the Bank has established a special Agricultural Credit Department whose main functions are to study all questions of agricultural credit, give expert advice to the Government and Provincial Co-operative Banks, and to co-ordinate the operations of the Bank in connexion with agricultural credit and its relations with Provincial Co-operative Banks and any other bank engaged in the business of agricultural credit. The Department has already published two reports on agricultural credit and made a number of recommendations for the strengthening of co-operative credit in rural areas.

Now that the Reserve Bank has been established, it is hoped that India's money market will be properly reorganized and unified and will be free from its old defects, such as lack of close connexion between its various parts, dual control of currency and credit by the Government and the Imperial Bank, seasonal monetary stringency and high money rates, and the very poor use of bills or *hundis* (i.e. the lack of a bill market for India). It will also generally strengthen the Indian banking system, especially when further steps are taken to establish more intimate contact between the Reserve Bank and the indigenous bankers. The Reserve Bank of India has inaugurated a new era of financial stability, banking reform and extension and improvement of the money market in India. It has succeeded in reducing the seasonal fluctuations in the money rates and in generally lowering the interest rates in the money market. It has also given indirect stimulus to the extension of banking facilities in the country. It has however not succeeded as yet in bringing under its control the indigenous bankers in the country.

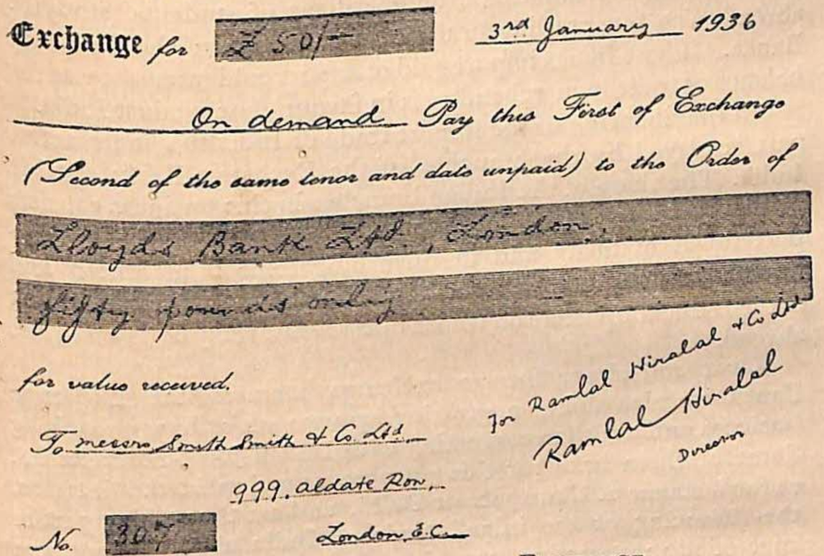
The Reserve Bank of India was nationalized and was taken over by the State on 1 January 1949. It is hoped that this would not involve undue interference with its working on the part of government.

§24. **The Imperial Bank of India.**—Since the establishment of the Reserve Bank, the Imperial Bank of India has become the premier commercial bank of the country. Owing to its appointment as the sole agent of the Reserve Bank (which in practice means that it is in charge of Government balances) it still remains subject to the special Act by which certain restrictions are placed on its activities. For instance, it cannot make loans for a period longer than six months, or against the primary security of immovable property such as land. It is, however, now free from certain old restrictions on its business, such as the prohibition to receive deposits or raise loans in England and to deal in foreign exchange business. The Bank can receive deposits, and advance and lend money and open cash credits against Government securities, State Railway Bonds, debentures of a Municipality or Local Board, or against goods and promissory notes signed by two independent persons or firms. It can draw, accept and discount and sell bills of exchange and other negotiable securities, grant letters of credit and administer estates as executor.

The Imperial Bank has more branches (over 160) than any other bank in India. It has three Local Head Offices, one at each of the Presidency towns, which are managed by Local Boards. There is also a Central Board of Directors for the general superintendence of its affairs and business. This Board consists of the President, and Vice-Presidents of the Local Boards, one person elected from among themselves by the latter, a Managing Director and a Deputy Managing Director appointed by the Central Board, two persons nominated by the Governor-General-in-Council, and Secretaries of the Local Boards.

The capital and reserve of the Bank is Rs. 15 crores. The fully paid-up capital is Rs. 5.62 crores, the Reserve Fund is Rs. 5.62 crores, and total deposits amounted to about Rs. 657 crores in April 1946. It is required to publish a weekly statement of its assets and liabilities.

§25. **Exchange Banks.**—There were in all 20 Exchange Banks operating in India in the year 1940. All of them have their head offices abroad and operate in India through branches. The most important (as many as eight) are British banks. Other countries who have trading relations with us in normal times and have Exchange Banks in India are the U.S.A., Japan, Holland and Portugal. The Exchange Banks are officially classified as: (i) those doing considerable business in India (having 25% or more of their deposits in India), such as the National Bank of India or the Chartered Bank of India; (ii) those which are merely agencies of large banks doing business all over Asia (i.e. having less than 25% of their deposits in India), such as the Yokohama Specie Bank or the Bank of Taiwan. Indian Joint-Stock Banks have at present a negligible share in the foreign exchange business, owing to lack of adequate capital, absence of branches in foreign centres, and above all the strong competition of old-established and powerful foreign Exchange Banks. The first Indian Exchange Bank (Central Exchange Bank of India), opened in London under the aegis of the Central Bank of India, was amalgamated with Barclays Bank Ltd., London.



Exchange for £50/- 3rd January 1936

On demand Pay this First of Exchange

(Second of the same tenor and date unpaid) to the Order of

Lloyds Bank Ltd, London.

fifty pounds only

for value received.

To messrs Smith Smith & Co. Ltd.

999. aldate Row,

No. 307 London, E.C.

For Ramlal Hiralal & Co Ltd

Ramlal Hiralal

Director

FIG. 2.—FOREIGN BILL OF EXCHANGE

For greater safety, foreign bills are usually sent in duplicate, called the First and Second of Exchange.

The main business of the Exchange Banks is financing the foreign trade of India by the purchase and discount of foreign bills of exchange. These are mainly export bills[1] which are bought (or discounted) by these banks from exporters in India. They are afterwards sent to London and are there rediscounted with the London banks. Against their London sterling balances, which are increased by purchases of export bills in India, the Exchange Banks sell sterling to the Reserve Bank of India, which has to remit in sterling large sums on Government account to enable the Secretary of State to meet the Home charges. Other persons, like the importers, or guardians of students studying abroad, also buy sterling drafts on London from the Exchange Banks. These Banks import gold or export gold according as the balance of trade in merchandise is in favour of or against India.

In the financing of the import trade of India the more active part is played by the branches of the Exchange Banks outside India. The share of the Indian branches in this business consists primarily in collecting the import bills (drawn on Indian importers) at maturity and in furnishing their head offices and branches abroad with information as to the means and standing of the Indian importers on whom bills are drawn by their creditors abroad.

Over and above foreign exchange business, the Exchange Banks are also doing a growing volume of ordinary banking business and are thus competing with Indian Joint-Stock Banks. Some of them have for this purpose branches in the interior, as for instance at Cawnpore or Delhi, and are thus taking part in the financing of the inland trade of India also. They have succeeded in attracting large deposits in India (Rs. 85·57 crores in 1940) and the Indian Joint-Stock Banks have to face these new formidable rivals even in their own field of ordinary banking and inland trade finance.

In order to increase the share of Indians in the financing of the foreign trade of the country, the Central Banking Enquiry Committee has proposed firstly, that Foreign Exchange Banks should be required to take out licenses with a view to subjecting them to some control, and secondly, that a private Indian Exchange Bank enjoying State aid should be started, should the Imperial Bank fail to expand the foreign exchange business in which it is now free to engage.

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[1] See Fig. 2.

§26. **Joint-Stock Banks.**—We have already referred to the recent growth of Joint-Stock Banks in India.[1] As in England, these are mainly commercial banks and give short-term credit only. They receive deposits, discount local bills, open cash credit accounts, advance loans against stock exchange securities, grain or cotton, buy and sell shares and transact miscellaneous banking business. On 31 December 1940 there were in all 58 Joint-Stock Banks with capital and reserve of Rs. 5 lakhs and over. Their paid-up capital was Rs. 9.09 crores, reserve and rest Rs. 5.57 crores, deposits Rs. 113.98 crores, and cash balances Rs. 26.26 crores. The total number of banks with capital and reserve between Rs. 1 lakh and 5 lakhs was on the same date 122, their paid-up capital Rs. 1.67 crores, reserve and rest Rs. 0.76 crore, deposits Rs. 11.04 crores, and cash balances Rs. 2.24 crores. The most important Joint-Stock Banks in India (India's Big Five as they may be called) are the Bank of India, the Central Bank of India (which is a remarkable example of a successful bank owned and managed by Indians), the Punjab National Bank, the Bank of Baroda and the Allahabad Bank.

Since the bank failures of 1913-14 the question of regulating the Joint-Stock Banks in India has engaged a good deal of attention. These failures were due to low cash balances, small paid-up capital, lack of experienced and trained managers, unsound advances, and in a few cases to fraud. The Central Banking Enquiry Committee recommended the enactment of a special Bank Act, since the old Indian Companies Act (1913), which applied to all types of joint-stock companies, was thoroughly inadequate for regulating banks. The amended Indian Companies Act (1936) includes some additional provisions for regulating banking companies. It may be noted that, after the banking crisis in South India in 1938, the Reserve Bank put forward proposals in 1939 for the regulation of banks in India through a comprehensive Bank Act. Wide powers of control over the operations of the commercial banks have been acquired by the Reserve Bank as a result of recent legislation.

§27. **Indian banking during the war.**—Although at the outbreak of the war in September 1939 banks in India were called to meet hurried withdrawals of deposits, on the whole the Indian banking system stood the first shock of the war well. Thereafter the bank deposits showed a steady increase. As in the First World War, the Second World War has had the result of strengthening the cash position of banks in India. Unlike, however, the war of 1914-18, the war of 1939-45 has not produced tight money and a high bank rate, thanks to the rigorous control over interest rates by monetary authorities in India and England.

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[1] See §22.

§28. **Other types of banks.**—We have already dealt with *Co-operative* and *Land Mortgage Banks.*[1] There are hardly any special banking organizations in the country for providing long-term loans to industries for purchasing machinery, erecting factory buildings, etc. There is a great need for this type of bank, as was pointed out by both the Industrial Commission and the Central Banking Enquiry Committee. The latter recommends the establishment of Provincial Industrial Corporations assisted by the Provincial Governments and of an all-India Industrial Corporation. Under the State Aid to Industries Acts (as in Madras, the Punjab and Bengal), loans are given by the Government to industries, but these are mainly restricted to small cottage industries, and the need for Industrial Banks for meeting the long-term capital requirements of large-scale industries remains unsatisfied.[2]

Reference may be made here to *Postal Savings Banks,* which were opened in all parts of India in 1882 and 1883. These banks provide the lower middle classes with a secure means of depositing their small savings, for which the general balances of the Government constitute a sufficient security. In 1938-9 there were 12,109 Postal Savings Banks, the number of depositors was 4,240,791, and the total deposit balances with the Government totalled Rs. 81.94 crores. The amount declined to Rs. 51.39 crores in 1941-2 partly owing to the lowering of the rate of interest allowed on these deposits to 1½% and partly owing to the withdrawals during the war. The amount outstanding was Rs. 80.27 crores in 1944-5. These deposits can be withdrawn at any time subject to certain restrictions. The maximum amount of deposits per year is limited to Rs. 750 and the total deposit to the credit of an individual account is limited to Rs. 5,000. Amounts of As. 4 and above can be deposited and money can be withdrawn once a week.

Since 1917 the Post Office has come into contact with the savings of the people in another way through the five-year *Postal Cash Certificates* which are issued in various denominations ranging from Rs. 10 to Rs. 1,000. The total amount of Postal Cash Certificates outstanding on 31 March 1942 was Rs. 39.19 crores, as compared to Rs. 65.98 crores in 1934-5. The decline may be attributed to the lowering of the interest rate to 2½%, withdrawals during the war of 1939-45 and the diversion of savings into the comparatively more attractive Defence Savings Certificates, yielding 3⅛% compound interest, introduced during this war. No one person can hold Postal Cash Certificates of value exceeding Rs. 10,000. A special credit institution called the Industrial Financial Corporation was created in 1948 to make medium- and long-term credits more readily available than before to industrial concerns.

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[1] See ch. iii, §§20-2 and 24.

[2] See, however, ch. iv, §5.

§29. **The hoarding habit.**—The habit of hoarding to which the Indian people are supposed to be addicted has given rise to a good deal of controversy. India has been described as a bottomless sink for the precious metals, gold and silver. These hoards have been estimated at £1,000 million. It is clear that the use of gold for industrial and domestic purposes is not confined to India and is found even in European countries. Further, the total amount is not large considering the vast population of India. The recent large exports of gold from India go to show that when necessary Indians do bring out their hoards, which are therefore not lost to the world for all time. The hoards are held in scattered, individually insignificant amounts. The use of gold and silver is enforced by custom and plays an important part in social ceremonies sanctioned by religion and tradition. The habit of hoarding, although its extent is exaggerated, must nevertheless be admitted to exist. Its principal cause is found in the sense of insecurity of life and property engendered by the numerous invasions to which India was subjected in the past. Formed in times of insecurity, the habit has to some extent continued to survive in times of well-established peace and security. The illiteracy of the population and the absence of adequate banking facilities are other obstacles in the path of reform.

For inducing people to put their hoards to productive uses it is very necessary to devise suitable measures such as extension of the Postal Savings Banks; multiplication of Co-operative Societies; issue of gold certificates (i.e. repayable in gold); a more extended use of the co-operative and other cheques; general extension of banking facilities; and the establishment of National Savings Associations (as in England) which aim at promoting thrift and at familiarizing the small saver with safe and profitable modes of investment. The removal of illiteracy, the reform of social and religious customs through education, and the progress of general enlightenment should also help.

§30. **Need for more banks.**—Compared with other countries, banking facilities in India are most inadequate. There are about 3,000 banking offices, including branches and agencies, throughout the whole of India. Less than 400 towns out of a total of 2,755 are served either by a bank or branch or agency of a bank. It is, therefore, very necessary to follow a vigorous policy of establishing joint-stock and co-operative banks and multiplying their branches under the supervision and guidance of the Reserve Bank of India. The services of indigenous bankers should also be fully utilized. They should be appointed as agents by the joint-stock banks and their methods of business should be revised and modernized.

SUMMARY

The Indian Currency System

The *present rupee*, containing 180 grains (one tola) of silver $\frac{11}{12}$ ths fine, was made sole legal tender throughout British India in 1835, and gold was demonetized. The Silver Standard thus established remained in operation until 1893, when the mints were closed to the free coinage of silver owing to the fall in its prices and the consequential fall in the gold exchange value of the rupee. In 1899 the British gold sovereign was made legal tender at the rate of £1 = Rs. 15. Before the war the Gold Exchange Standard was in operation in India, the rupee being kept fixed at 1*s*. 4*d*. sterling (which in practice meant 1*s*. 4*d*. gold). The method adopted was to sell Council Bills or Reverse Councils as required. During the war the price of silver rose, and the exchange value of the rupee was raised by successive steps to 2*s*. 4*d*. The attempt to stabilize it at 2*s*. gold failed. Thereafter the rupee was left to itself. The Hilton-Young Commission recommended the adoption of the Gold Bullion Standard. It also proposed that the rupee be given a gold value of 8.47 grains, equivalent to 1*s*. 6*d*. gold. The latter rate was accordingly made legal by the Currency Act of 1927, which also gave the option to the Government provisionally to sell sterling exchange instead of gold bullion in lieu of rupees. In September 1931, when Great Britain gave up the Gold Standard, India followed suit. The rupee was then linked to 1*s*. 6*d*. sterling and thus once again the Sterling Exchange Standard was introduced. This standard has been made legal by the Reserve Bank of India Act (1934) which also requires the Bank to make a report on the permanent monetary standard suited to India when world monetary conditions become more normal. The Reserve Bank is the new currency authority in the country. The previous two separate currency reserves, namely the Paper Currency Reserve, and the Gold Standard Reserve (created in 1900 out of profits on rupee coinage), have been amalgamated and entrusted to the Reserve Bank, which has to issue and regulate paper currency (Bank Notes) and maintain the exchange value of the rupee at 1*s.* 6*d.* There was for some time much controversy regarding the ratio, and a considerable volume of opinion was adverse to 1*s.* 6*d.* and was in favour of 1*s.* 4*d.*, or a still lower rate. The linking of the rupee to sterling as also the large gold exports during the last eight years were similarly subjects of keen controversy. Towards the end of 1945 India joined the International Monetary Fund and notified to the Fund that the rate of the rupee was 1 Re. = 4.145 grains of gold = 1*s.* 6*d.* = 30.225 U.S. cents. In September 1949 the rupee was devalued in terms of the dollar and became worth 21 U.S. cents. The Pakistan rupee, however, continues its old rate of 30.225 cents to the rupee which means that it has appreciated to the extent of 44% in terms of the Indian rupee.

The Indian Paper Currency system was established by the Paper Currency Act of 1861. Until its recent (April 1935) transfer to the Reserve Bank, it was a monopoly of the Government, which alone could issue notes and was responsible for maintaining their convertibility into rupees. For this purpose a separate Paper Currency Reserve was maintained on the fixed fiduciary issue plan. Except for a maximum amount of fiduciary (invested) reserve, the remainder had to be held in metal (i.e. silver and gold coin and bullion). Part of the reserve was invested in sterling securities. During the war there was a considerable expansion of paper currency and of the sterling securities held in the reserve. In 1920, on the recommendation of the Smith Committee, the Proportional Reserve System was adopted, and the Paper Currency Act of that year provided for a 50% metallic reserve. It also permitted the issue of emergency currency to the Imperial Bank during the busy season against the security of inland trade bills. As recommended by the Hilton-Young Commission, the function of note issue has recently been transferred to the Reserve Bank, which must hold under the Reserve Bank Act a 40% Gold Reserve (gold bullion and sterling securities) which may, however, be lowered temporarily on payment of a tax.

The notes were of the following denominations: Rs. 5, 10, 50, 100, 500, 1,000 and 10,000. All except the last three are universal notes, i.e. legal tender throughout British India, the last being legal tender in its respective circle of issue only.

In addition to rupees and notes, there are subsidiary silver, bronze and copper coins which are legal tender only for small amounts not exceeding a rupee.

The Indian currency system has stood the strain of the war fairly well and has tided over temporary panic created in April-June 1940. A striking expansion of paper currency, issue of one-rupee notes, lowering of the standard of fineness of all the silver coins including the rupee, the firmness of the rupee-sterling exchange, restrictions on export and import of gold and exchange-control are the principal features of the war-time Indian currency system.

Prices in India

Rupee prices in India have varied from time to time, as shown by the General Index Number of prices with 1873 as the basic year and by the Calcutta Index Number of wholesale prices. The rise of prices, which had already been evident in the pre-war period and had formed the subject of a special inquiry in 1912, became particularly marked during the war period. Before as well as during the war, it was mainly the result of currency inflation. Before the war, apart from certain world factors which made for a rise in prices, there was extensive rupee coinage. During the war, besides a large addition to the rupee coinage, there was a considerable issue of notes. The cost of living increased, and this adversely affected the position of the middle-class people and wage-earners. On the other hand, the business community benefited by the rise in prices. Under Indian conditions, however, the possible benefit to the agriculturist is intercepted to a considerable extent by middlemen and money-lenders.

The big drop of prices, which was such a marked feature of the world depression, was particularly disastrous to agricultural countries like India. There was a limited recovery of prices after 1936 with the exception of the 'recession' of 1938. In World War II there was a substantial rise in prices, and the Government instituted a policy of price-control in the case of necessaries of life, with a view to check profiteering. The increased cost of living due to rise in prices has been partly met by the grant of dearness allowances to industrial workers.

World War II ushered in a period of rapidly rising prices which became especially noticeable after 1942. This trend has continued practically without interruption up to date (average index number in July 1950 was 405.2 as compared to 100 in 1939). The only effective remedy is intensified production supplemented by more liberal imports of essential goods from abroad.

Indian Banking

The *main constituents of the Indian money market are*: (i) the Reserve Bank of India; (ii) the Imperial Bank of India; (iii) the foreign Exchange Banks; (iv) the Indian Joint-Stock Banks; and (v) the indigenous bankers.

Banking has been practised in India from very ancient times, and even today indigenous banking satisfies the needs of about 90% of the people, especially those living in the rural areas. It is necessary, however, to modernize the methods of indigenous bankers and to link them with the Reserve Bank of India.

Organized banking of the western type was introduced in India by the *Agency Houses* during the latter half of the eighteenth century. The *Presidency Banks* were established between 1806 and 1843 at the three Presidency towns. *Joint-stock banking* received a stimulus in 1860 when the principle of limited liability was recognized. Progress, however, was slow until 1905 when, owing to the enthusiasm created by the swadeshi movement, quite a large number of new banks were established. Several of these, however, disappeared in the banking crisis of 1913-14, which proved the necessity of subjecting the banks to special legal restrictions.

The Reserve Bank was at last established (in April 1935) under the Reserve Bank of India Act of 1934. It was a private shareholders' bank, although some of the most important appointments on the Central Board were made by the Governor-General-in-Council. The Reserve Bank has to transact banking business for the Government and has for that purpose appointed the Imperial Bank of India as its agent. It is also the currency (note-issuing) authority. The more important banks (Scheduled Banks) are required to maintain certain cash balances with the Reserve Bank, which in turn offers them certain privileges, such as rediscounting of bills and promissory notes endorsed by them, grant of loans, etc. It can in turn borrow money from them for short periods. It is prohibited from allowing interest on deposits, engaging in trade, etc. It has to publish from time to time its Bank Rate, i.e. the rate at which it is prepared to discount approved bills and commercial paper. It is empowered to carry out open-market operations. Provision has also been made for the establishment of a special Agricultural Credit Department by the Bank. It is hoped that the Reserve Bank will be able to reorganize and unify our money market, reduce money rates, relieve monetary stringency during the busy season, help agriculture and generally strengthen our banking system. The Bank was nationalized and taken over by the State on 1 January 1949.

The Imperial Bank of India was established in 1921, being the result of an amalgamation of the old Presidency Banks. Until the establishment of the Reserve Bank of India it performed certain banking business on Government account. It is now the sole agent of the Reserve Bank of India and continues to be subject to a special Act, which, while now allowing it to deal in foreign exchange, prohibits it from lending for a period longer than six months or against immovable property. The Imperial Bank is now the premier commercial bank in the country and has a large number of branches (exceeding 160) throughout the country.

The *Exchange Banks* in India are all branches of foreign banks. Their main business is to finance the export and import trade of India. They buy export bills and get them discounted in London. They also collect import bills drawn on importing houses in India. They export and import gold, and buy and sell sterling from and to the Reserve Bank. Latterly they have been entering into competition with the Indian Joint-Stock Banks by attracting large deposits in India and by financing even the internal trade of the country. The Central Banking Committee has recommended the issue of licenses subject to certain conditions to these Banks so as to bring them under control.

The most important *Indian Joint-Stock Banks* are the Central Bank of India, the Bank of India, the Punjab National Bank, the Bank of Baroda and the Allahabad Bank. As in England, the Indian Joint-Stock Banks are mainly commercial banks. They accept deposits and advance loans for short periods, finance the inland trade and transact general banking business.

Indian Banking stood the strain of the war of 1939-45 remarkably well and displays a stronger cash position than before the commencement of hostilities.

Other types of banks are (i) Land Mortgage Banks, (ii) Co-operative Banks, (iii) Postal Savings Banks and (iv) Industrial Banks.

The *hoarding habit* in India has been the subject of a long controversy and has received a good deal of attention. It is largely the result of conditions of insecurity in the past and certain social customs. In order to wean the people from this habit and induce them to make a productive use of their hoarded wealth, further extension of banking facilities throughout the country is urgently called for.

VII

FINANCE

§1. **Introductory remarks.**—Indian finance has undergone a great change in recent years. Before the war (1914-18) there used to be only one budget for the whole of India, and the Central Government was the only taxing authority. Since the war there has been a practically complete separation of provincial from central finance. About fifty years ago land revenue was far and away the most important source of revenue. Other sources of revenue like customs and income-tax are now coming more into the picture, and some sources like opium, which used to be of great importance, have dwindled into insignificance. Also in normal years the railways are now expected to contribute something towards general revenues instead of being a drain on them.

We shall now proceed to discuss the principal *central heads of revenue.*

§2. (i) **Customs (import) tariff.**—Until recently, the Indian tariff was on a free trade basis. Between 1882 and 1894 there were practically no import duties. In 1894, however, a general 5% *ad valorem* duty (from which a few things like cotton yarn and piece-goods were exempted) was imposed on all imported goods. The object of this duty was revenue and not protection of any indigenous industry. At the end of 1894, the duty was made applicable to cotton yarn and piece-goods also. In 1896 the duty on cotton piece-goods was lowered to 3½% and an equivalent excise duty was levied on mill-woven cloth produced in India. The excise duty was bitterly resented in India but it was not taken off till 1926.

Extensive changes in the customs tariffs have been introduced since the war of 1914-18 and a large number of imports have been subjected to duties of varying size. At first the duties were imposed primarily for revenue purposes in order to enable the Government to meet the great increase of public expenditure. In 1924 the policy of discriminate protection was accepted, and accordingly some of the import duties (and their number is steadily growing) have been levied mainly for the purpose of granting protection to certain selected industries.[1] Latterly the idea of Imperial Preference has been superimposed on our tariff arrangements. On 20 August 1932 a general trade agreement was signed at Ottawa between India and the United Kingdom followed by a supplementary agreement regarding iron and steel on 22 September 1932. These Agreements were replaced by a new agreement called the New Indo-British Trade Agreement in 1939. The professed object of these agreements was to safeguard India's existing export trade from dangers which might be apprehended, to stimulate its recovery from the prevalent depression and to open out new lines of development to the utmost extent possible. In return for concessions granted to certain Indian goods in the United Kingdom, corresponding concessions were granted to British goods in the Indian market. The Indian tariff, which had so far been a single-decker one, thus became a two-decker one. That is to say, whereas previously it did not differentiate between imports from different countries (except in a few cases), it now adopted two sets of import duties—one higher, on goods coming from countries other than the United Kingdom, and the other lower, on goods of British origin. The budget of 1942-3 provided for an overall surcharge of 20% on the import tariff with certain exceptions such as salt to meet the increased expenditure on defence caused by the war.

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[1] See ch. iv. §4.

In one way or another, therefore, the list of imported articles subjected to fairly heavy duties (amounting to 75% *ad valorem* in some cases) has been considerably enlarged in recent years. Among the dutiable articles mention may be made of the following: cotton piece-goods, railway materials, sugar, matches, motorcars, cinema films, watches, silk piece-goods, tobacco, cigars, cigarettes, kerosene, petroleum, silver, fermented liquors, wines and spirits.

(ii) *Customs* (*Export*) *duties*.—Until 1860, there was a 3% duty on practically all exports, but the duties on most articles were abolished between 1860 and 1880. At present the only important export duties are those on jute and jute manufactures, and on rice. The jute-growing provinces (i.e. Bengal, Assam and Bihar) are granted a share of the proceeds from the jute export duty.

The customs revenue has made rapid strides since the war of 1914-18. Its yield increased from Rs. 11.13 crores in 1913-14 to Rs. 45.88 crores in 1939-40 after allowing for the loss of revenue due to the separation of Burma. The customs revenue in 1946 amounted to about Rs. 55 crores. There is a marked tendency to rely increasingly on customs duties for revenue.[1]

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[1] The revenue from Central excise duties, formerly included under customs, is now shown separately, being Rs. 48·59 crores (Budget) for 1945-6. It con-

§3. **The income-tax.**—The adoption of income-tax in India on a permanent basis dates from 1886. Before the war of 1914-18 the annual yield from the income-tax was only about Rs. 3 crores. Owing to successive increases in the rates, the yield is now about Rs. 42 crores (including surcharges and the excess profits tax levied during the war of 1939-45) according to the Budget of 1942-3, exclusive of the corporation tax (levied at the rate of 1½ anna in a rupee) estimated at Rs. 22 crores.

Since 1916 a scale of progression has been introduced, so that the rate of the tax varies in accordance with the size of the income, being higher for the bigger incomes and lower for the smaller incomes. In addition to the ordinary income-tax, a progressive super-tax has to be paid on incomes of Rs. 25,000 a year and above. The Income Tax Amendment Act (1939) has introduced the 'slab' system, under which progressive rates are applied to successive slices of income. Under the previous 'step' system the tax was charged at the same rate on the whole income, the rate rising with the income.

§4. **Salt.**—The salt revenue was inherited by the British Government from its predecessors along with a number of transit dues. These latter were abolished in 1843, and the salt duty was at the same time consolidated and raised. It was very high in the beginning, being Rs. 2 per maund in 1882 and Rs. 2-8-0 per maund in 1888. Since 1903 the rate has on the whole been on the downward grade. It stood at Re. 1-4-0 per maund or Re. 1-9-0 inclusive of the surcharge levied in 1931 until it was abolished in 1947. Its abolition had long been an article in the creed of the Congress and was naturally one of its first acts when it came into power. The tax had been a considerable revenue-yielding asset while its incidence was comparatively light and from a practical realistic point of view there are good grounds for doubting the wisdom of sacrificing an annual revenue of some eight crores of rupees without bringing appreciable relief to the taxpayer. In an ordinance published on 16 January 1948, the Pakistan Government announced the reimposition of the salt duty using the old familiar agruments in favour of this step, iz. (i) that this is one of the taxes which everyone must pay because everyone consumes salt. Every citizen is in this manner made to contribute to the revenues of the State, as

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sists of excise duties first levied on sugar and matches in 1934 and excise duties on kerosene and motor spirit produced in India proper. The salt duty is separately shown.

he ought to, (ii) that the salt duty yielded a substantial revenue and (iii) that its burden on the individual consumer was light.

§5. **Opium.**—Opium was at one time a considerable source of revenue yielding about Rs. 8 crores per year. But in order to assist China in suppressing the opium habit, the Government of India entered into an agreement with China in 1907 and again in 1911 undertaking a progressive reduction in the exports of Indian opium to that country. In 1926 an announcement was made to the effect that in future all exports of opium would be abolished except for strictly medicinal purposes. This is now an accomplished fact. Internal consumption of the drug is also strictly regulated. The opium revenue has thus declined to half a crore of rupees.

§6. **Provincial revenue and expenditure.**—We have so far discussed the main sources of revenue enjoyed by the Central Government. We shall now pass on to consider provincial heads.

§7. **Principal provincial heads of revenue.**—(i) *Land revenue.* —Land revenue has already been discussed in Chapter III (§§29-37).

(ii) *Excise.*—The excise revenue, which amounted to Rs. 12.29 crores in 1939-40 in British India, is derived from the sale and manufacture of intoxicating liquors, hemp, drugs, opium, etc. It is levied in the form of a duty on manufacture and fees for sale licenses. The major portion of the revenue is obtained from country liquors: the right of wholesale supply for a district is granted by contract; and the right of retail sale is auctioned.

The main object of the excise policy ought to be the suppression of the evil of drink. The Government had relied largely on the method of raising the price of liquor, but not so much as to stimulate illicit production. Other methods are rationing, reduction in the number of shops, lowering the limits of possession, reducing the strength of the drinks supplied, curtailing the hours of sale, etc. Non-official opinion was inclined towards the restriction of quantity, strict regulation of the number of shops, and in general towards a stricter policy of control, and latterly, under the lead given by the provincial Congress Ministries, towards complete prohibition. Extreme methods, however, are likely to defeat their own object by encouraging smuggling and illicit distillation, or to result in people resorting to some other habit that may be even more obnoxious. The practical statesman will bear in mind all these dangers and difficulties and will aim at a happy mixture of daring and circumspection in dealing with the problem. He must endeavour to emphasize the moral aspect of excise policy and avoid the temptation of shirking important practical reforms because they may mean some immediate financial loss to the Government.

The Congress is committed to a policy of complete prohibition and some of them are pushing ahead rapidly with it in spite of directives from the Central Government to proceed slowly because the excise revenue has been a most important item in the income of provinces and to surrender it is to worsen their financial position which in most cases is bad enough already. Madras went completely dry with effect from 2 October 1948. Bombay envisages total prohibition by 1951 and other Provinces are going as fast in the same direction as they dare.

(iii) Other sources of revenue are judicial and commercial stamps, fees for registration of documents, forests (derived from the sale of timber, grazing fees, etc.) and the 'scheduled taxes', i.e. certain specified taxes such as the Entertainment Tax, which the provinces were empowered to impose at their discretion under the Reforms of 1919.

Some provinces have levied new taxes since the introduction of Provincial Autonomy in 1937, such as Sales Taxes, the Employment Tax, the Immovable Property Tax, etc.

We shall now turn to the expenditure side and consider the main items of central and provincial expenditure.

§8. **Public expenditure (Central and Provincial).**—Since the beginning of the present century, and especially during the last twenty-eight years, there has been a striking increase in public expenditure in India. For example, the total amount of central and provincial expenditure increased from Rs. 124 crores in 1913-14 to Rs. 360.23 crores in 1945-6. This is the experience of all civilized countries because the scope of governmental activity has immensely increased in recent years. But as G. K. Gokhale pointed out, 'while increased expenditure in other countries under popular control has helped to bring increased strength and security to the nations and increased enlightenment and prosperity to the people, our continually increasing expenditure has, under autocratic management, defective constitutional control and inherent defects of alien domination, only helped to bring about constantly increasing exploitation of our resources, has retarded our national progress and burdened us with undefined and indefinite financial liabilities. Compelled to meet the demands of a forward imperial frontier policy . . . and constant borrowing for commercial enterprises, often undertaken in consequence of the pressure of English commercial classes, our Indian Government has little money to spare, with all its increase of taxation, for purposes of national education.' Gokhale attributed a large part of the increase in public expenditure to the distrust and suspicion created by the Mutiny, which led to the wider employment of costly British services. The most serious growth in public expenditure was caused during the war of 1914-18 and the period that followed it. The military expenditure, which was already high, namely Rs. 29.84 crores in 1913-14, rose by leaps and bounds and stood at Rs. 67.38 crores in 1920-1. Since then by successive reductions the figure (net) was brought down to about Rs. 45 crores. The belief, however, was widely held that there was still further scope for substantial economies. National safety is of course a matter of paramount concern and we must be reasonably well prepared to meet all likely contingencies. At the same time we must never allow ourselves to forget that India is a very poor country and we must be chary of piling up unproductive expenditure that is not obviously necessary. The war of 1939-45 has been responsible for a very sharp increase in the defence expenditure, which was placed at Rs. 243.77 crores in the Budget estimate for 1946-7.

The enormous increase in the expenditure on civil administration has been another popular grievance against the Government, the complaint being that the Indian administration is one of the costliest in the world. The constitutional reforms have always been attended with heavy additions to administrative expenditure.

In both the military and the civil branches of administration there is need for a rigorous pursuit of economy by reduction of establishments, progressive Indianization, etc. It is, however, equally necessary to spend as freely as possible on the 'nation-building' departments—on education, agriculture, industries, irrigation, etc. in order to achieve the economic uplift of the people. The present scale of expenditure on these departments is very meagre.

§9. **Burden of taxation.**—The percentage of national income taken as taxation is low in India as compared with some other countries like the United Kingdom (about 6% as against over

22% in the United Kingdom before the war of 1939-45).[1] But considering the poverty of the people, the burden of taxation cannot be considered to be light. Besides, the question cannot be considered apart from the direction of public expenditure. If the expenditure is really beneficial to the nation, this would be properly regarded as a compensation and justification for the taxation, but, as we have already seen, the position in this respect is far from satisfactory.

Before the war, taxation was very unevenly distributed between the different classes of the community. The poorer sections bore the brunt of the burden in connexion with the land revenue, salt tax, excise duties, stamps, etc. The war- and post-war changes in taxation during the war of 1914-18, the post-war period and the war of 1939-45 have made the system somewhat more equitable by the introduction of a graduated income-tax and super-tax—not to speak of the Excess Profits Tax[2]—and the levy of special import duties on luxury articles, which naturally affect only the richer classes. Even so, a considerable degree of inequality still persists, and it needs to be rectified by the removal or reduction of taxes which press disproportionately on the poorer sections, and by relying increasingly on taxes likely to be borne mostly by the richer sections.

§10. **Recent Indian finance.**—As was to be expected, the war of 1914-18 seriously dislocated trade and industry, and therefore public finance also. In contrast with the budget surpluses which characterized the pre-war period, there came a succession of deficit budgets in both central and provincial finance. Various economies were carried out on the lines recommended by the Retrenchment Committee of 1922-3, and surplus budgets became again a feature of Indian finance for some years beginning from 1923-4. After 1927-8, however, budget equilibrium was disturbed. The world economic depression caused a very serious deterioration of many important revenue heads like customs and income-tax, and adversely affected the earnings of commercial departments like Railways and Posts and Telegraphs. The deficits had to be covered by heavy additional taxation—about Rs. 45 crores in the three years 1930-3. By this means, however, the Central Budget was able to show a small surplus, which considerably increased during 1934-5 and 1935-6, making some relief in taxation (e.g. income-tax) possible. The figures for 1936-7 revealed, however, a deficit of Rs. 1·78 crores, owing to deterioration in revenue under Customs and Income-tax. This necessitated an increase in sugar excise duties. Subsequently the Budget position improved, but deteriorated again in 1938-9 owing to the trade 'recession'. The commencement of the war of 1939-45 has once again created heavy deficits,[1] which have had to be met partly by additional taxation[2] and partly by borrowing.

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[1] The burden of taxation (central and provincial, including land revenue) per head in British India was Rs. 4-10-10 in 1938-9. According to Sir Purshottamdas Thakurdas, the burden of taxation per head was Re. 1-13-9 in 1871, Rs. 2-6-6 in 1901, Rs. 2-14-5 in 1913, and Rs. 6-1-8 in 1922.

[2] India's first post-war budget for 1946-7 removed the Excess Profits Tax on the ground that it seriously hampered industry and enterprise. The reduction of the duty on kerosene and motor-spirit and reduced postal rates are intended for the benefit of the poor man. Further extension of the principle of exempting earned income makes the taxation system more equitable.

§11. **Public debt in India.**—The origin of our public debt is to be traced to the wars of the East India Company. The debt inherited from the East India Company by the Government of India was purely unproductive. Since 1867, however, the productive debt incurred for the construction of railways, irrigation works, etc., has gone on increasing. By far the greater portion of the public debt of India during the war of 1914-18 was raised in England. The unexpected success which attended the Government's attempts to raise loans in India during the period of the war of 1914-18 made the Government realize the strength of the Indian money market, and now most of the public borrowing is done in the country itself. It is gratifying that the bulk of the public debt is productive in its character, being contracted chiefly for the construction of railways and irrigation works.

The total public debt (i.e. the interest-bearing obligations) of the Government of India at the end of 1944-5 (Revised estimate) Rs. 1819.02 crores; Rs. 34.10 crores being sterling debt in England and Rs. 1784·92 crores being rupee debt in India. The bulk of this debt represented interest-yielding assets, such as capital expenditure on railways, capital advanced to provinces for irrigation works, etc. It is noteworthy that the sterling debt of India has shown a rapid decline from Rs. 512.15 crores in 1934 to Rs. 34.10 crores in 1942, following the repatriation of sterling debt, particularly during the war of 1939-45—a process assisted by the acquisition of large sterling assets[1] by the Reserve Bank of India.[2] Contrariwise there has been an increase in the rupee debt from Rs. 693.09 in 1934 to Rs. 1784.92 in 1944-5. India has thus succeeded in greatly reducing her external debt and lessening to that extent the complications of her exchange problem.

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[1] The estimated deficit in the budget of 1946-7 is Rs. 48.77 crores which increased to Rs. 56.7 crores after the abolition of the salt tax.

[2] The central additional taxation imposed during the war of 1939-45 may be summed up as follows: (*a*) *Direct taxation.*—(i) Excess Profits Tax, (ii) Surcharges on income-tax, (iii) Lowering of the exemption limit of income-tax. (*b*) *Indirect taxation.*—(i) Increases in excises on sugar, motor-spirit, matches, kerosene and silver, (ii) New excise duty on tyres, (iii) An overall surcharge on the import tariff, (iv) Higher railway rates and fares, and (v) Enhanced postal, telegraph and telephone rates.

§12. **Financial relations between the Central and Provincial Governments.**—From 1833 to 1871 all financial powers were in the hands of the Government of India, which controlled the smallest details of provincial expenditure. Lord Mayo was impressed with the necessity of some decentralization in order to enlist greater interest and more animated co-operation on the part of the provincial governments in developing the public revenues and managing them with all possible economy. He initiated the system of 'Provincial Settlements' in 1871, under which certain heads of expenditure, local in character, were handed over to the provinces. For the management of these, the provinces were given, in addition to the departmental receipts, annual fixed lump-sum grants, the deficiency being made good by local taxation if necessary. The system of decentralization thus initiated was successively improved and extended in 1877, 1882, 1904 and 1912. The position before 1919 was as follows:

On the revenue side the Central Government retained for its use all the revenues which could not be allocated or traced to any province, these being called the Imperial Heads of Revenue (such as Opium, Railways, Customs, Salt, Posts, and Telegraphs). Of the remainder, some were wholly provincial, like Forests, Excise (in Bombay and Bengal), Registration, the departmental receipts from such provincial departments as Education, and Law and Justice. Lastly, there was an important class of divided heads of revenue, such as Land Revenue, Income-Tax, Excise, Irrigation and Stamps.

On the expenditure side a somewhat similar arrangement prevailed, and there was a special arrangement for the sharing of expenditure on famines.

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[1] These assets are expected to total Rs. 17.29 crores by the end of 1946-7.

[2] See ch. vi, §13.

Since the Reforms of 1919, of which the keynote was financial autonomy, the divided heads were abolished and the new allocation of revenue and expenditure was as follows: (i) *Imperial Heads of Revenue*: Opium, Salt, Customs, Income-Tax, Railways, Posts and Telegraphs, Military receipts. (ii) *Provincial Heads of Revenue*: Land Revenue (including Irrigation), Stamps (judicial and commercial), Registration, Excise, Forests.

Provincial contributions.—The abolition of divided heads of revenue and the provincialization of some heads like Land Revenue and Stamps resulted in a large central deficit. A Committee (Meston Committee) appointed in 1920 to consider the question of meeting this deficit proposed a scheme of provincial contributions to the central exchequer. The Meston Settlement failed to please anybody, and there was an unceasing clamour for the abolition of the contributions. The gradual improvement in the finances of the Central Government enabled it to grant substantial remissions in 1925-6 and the succeeding years, and with effect from 1928-9 the system of provincial contributions was completely abandoned. In spite of this, however, the main grievance of the provinces, especially of the industrial provinces like Bombay and Bengal, still remained, namely, that with stationary needs the Central Government had *elastic sources of revenue*, e.g. income-tax and customs, while the provinces, whose needs were rapidly expanding, had been given sources of revenue like land revenue and excise from which it was difficult to obtain correspondingly larger incomes. A small share in the income-tax was eventually granted to the provinces.

§13. Indian finance under the Constitution of 1935.—The important question of distribution of revenues between the Central Government and the provinces (or units of the coming Federation) has been recently considered by various committees and commissions, such as the Simon Commission (Layton Report), Federal Finance Sub-Committee of the Round Table Conference (Peel Sub-Committee of the Federal Structure Committee), and the Percy Committee.

The Government of India Act of 1935 which ushered in the new constitution contained the following provisions based on the findings of all these bodies.

The following duties and taxes were to be levied and collected by the Federal Government:

(i) Duties in respect of succession to property other than agricultural land.

(ii) Stamp duties in respect of bills of exchange, cheques, promissory notes, bills of lading, letters of credit, policies of insurance, proxies and receipts.

(iii) Terminal taxes on goods or passengers carried by railway and air.

(iv) Taxes on railway fares and freights.

The net proceeds of the above duties and taxes were not to form part of the revenues of the Federal Government but were to be distributed according to certain principles among the provinces and federated States within which the said duties and taxes have been levied. It was open to the Federal Legislature, however, to levy a surcharge on these duties and taxes and to appropriate the proceeds for Federal purposes.

Taxes on Income (excluding corporation taxes).[1]—Taxes on income, other than agricultural income, were also to be levied and collected by the Federal Government. A percentage of the net proceeds prescribed by Orders-in-Council was to be assigned to the provinces and the federated States within which such tax was leviable in a given year in such manner as might be prescribed by Orders-in-Council.

The Federal Legislature could at any time increase such taxes by a surcharge for Federal purposes.

Salt excise and export duties.—Duties on salt, federal duties of excise, and export duties were to be levied and collected by the Federal Government. But the Federal Legislature might pass an Act providing for the payment to the provinces of sums equivalent to the whole or part of the net proceeds from such duties, out of the federal revenues.

In the case of any export duty on jute or jute products, at least one-half of the net proceeds was to be assigned to the provinces in which jute is grown, the distribution being in proportion to the respective amounts of jute grown in them.

No Bill or amendment was to be introduced or moved in the Federal Legislature (except with the previous sanction of the Governor-General) which (i) imposed or varied any tax or duty the whole or part of the net proceeds whereof are assigned to any province; or (ii) varied the meaning of the expression 'agricultural income' as defined for the purposes of the enactments relating to Indian income-tax; or (iii) affected the principles on which moneys are or may be distributable to provinces or States; or (iv) imposed any such federal surcharge as is mentioned above.

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[1] A corporation tax means a tax on the profits of companies.

Before giving his sanction in this case, the Governor-General was required to satisfy himself that all practicable economies and all practicable measures for otherwise increasing the proceeds of taxation retainable by the Federation would not result in balancing federal receipts and expenditure in that year.

§14. **The Niemeyer award and after.**—The Secretary of State appointed Sir Otto Niemeyer to conduct the financial inquiry contemplated by the Government of India Act (1935). His report, setting forth the terms for the financial settlement between the Central and Provincial Governments with special reference to the division of the income-tax under the new Constitution, was accepted, and 1 April 1937 was announced, by Orders-in-Council, as the date for the inauguration of provincial autonomy.

The Niemeyer report proposed to give financial assistance to the provinces in three ways, partly by annual cash subventions to certain provinces like the United Provinces, Assam, Orissa, the North-West Frontier Province and Sind, partly by cancellation of the net debt incurred previous to 1 April 1936, and partly by distribution of a further 12½% of the jute tax to the jute-growing provinces (Bengal, Assam and Bihar).

The extra recurrent cost to the Centre was Rs. 192 lakhs. Orissa was to get a further non-recurrent grant of Rs. 19 lakhs and Sind of Rs. 5 lakhs.

Assignment of income-tax to the provinces—This was one of the major subjects of the Niemeyer inquiry. The Report calculated the income-tax to yield Rs. 12 crores a year after the separation of Burma. Half of this (Rs. 6 crores) was assignable to the provinces, but for the first five years, according to Sir Otto Niemeyer, it would have to be retained by the Centre in order to consolidate its financial position. In the course of the next five years the revenue would gradually be made available to the provinces, so that after ten years the provinces would receive their full share of the income-tax. So long, however, as the portion of the distributable sum remaining with the Centre, together with any contribution from the railways, aggregates to less than Rs. 13 crores, the proceeds of the income-tax will not be distributed among the provinces.

It was at first apprehended that a considerable interval must elapse before the provinces would begin to receive even a partial benefit, and a still longer interval before they received the full benefit from their share of the income-tax. Fortunately, however, for the provinces, the partial improvement in Central revenues and the Railway surplus made it possible for the Central Government to make a beginning in transferring to the provinces a portion of the income-tax under the Niemeyer award in the financial year 1937-8. In recent years a fairly substantial share of the income-tax has accrued to the provinces. It may be added that in accordance with the recent (1940) alteration in the Niemeyer formula for assignment of provincial shares of income-tax, the railway contribution has been altogether excluded from the central calculation of the sum available for the provinces in view of the complete change in the financial situation brought about by the war. The new arrangement is not, however, unfair to the provinces.

Sir Otto Niemeyer's recommendations represented a compromise between a number of conflicting aims and view-points, and were characterized by a spirit of realism and practicalness rather than a doctrinaire adhesion to any theory of federal finance. While central needs must be provided for, at the same time the provinces must be given expanding sources of revenue to enable them to finance schemes in the nation-building departments.

As a result of the Partition, portion of the former provinces of Bengal, Punjab and Assam came to be included in Pakistan. It therefore became necessary to determine the shares of revenue allocation to be taken away from these provinces in respect of the portions which they had lost to Pakistan and redistribute them among the Indian Union provinces. This was done by Mr Chintaman D. Deshmukh to whom the Government of India referred the question. As a result the income-tax percentages allotted to the provinces were slightly altered. At the instance of Government Mr Deshmukh also settled afresh grants-in-aid to the provinces concerned in respect of the jute export duty. This so-called Deshmukh award took effect from 1 April 1950 and will remain in force until the whole question is re-examined by the Finance Commission which is to be appointed within two years of the inauguration of the new Constitution.

LOCAL FINANCE

§15. **Municipal finance.**—Municipalities are given a wide choice as to the form of the taxes they may levy. The taxes levied by the local authorities may be grouped under four main heads: (i) taxes on trade, for example octroi duties, terminal taxes, and tolls; (ii) taxes on property, for example taxes on houses and their sites (and, in rural areas, the cess on land); (iii) taxes on persons, for example taxes on professions, trades and callings, on pilgrims, on menials and domestic servants; and (iv) fees and licences. Fees are either for specific services rendered by the Municipality, such as scavenging fees, or are partly of the nature of luxury taxes, and partly levied for purposes of regulation, such as licenses for music, vehicles, dogs and other animals. There are also licence fees for dangerous or offensive trades.

The principal sources of municipal income are Rates and Taxes; octroi; taxes on houses and lands, animals and vehicles, professions and trades, tolls on roads and ferries, rates on water, lighting and conservancy, rent of lands, houses, etc., fees, receipts from markets and slaughter houses, and grants from Government. The main heads of municipal expenditure are General Administration and collection charges; public safety—lighting, police, fire, etc.; public health and convenience—water supply, drainage and conservancy; hospitals and dispensaries and vaccination. Plague charges, markets, gardens and sanitary; public works; public instruction; contributions for general purposes; Miscellaneous—interest on loans; other miscellaneous expenditure.

Since the total income, of about Rs. 42 crores per annum is distributed among as many as 812 Municipalities (including the three big Presidency Corporations), it is obvious that the average Municipality in India is very poor in resources. The main source of income is rates and taxes, which accounts for about two-thirds of the total municipal revenue. The remaining one-third is derived from municipal property, contributions out of provincial revenues, and miscellaneous sources.

The heaviest items of expenditure are conservancy and public works, water supply, drainage and education. Municipalities are often unable to meet their expenditure from ordinary revenues and have generally to borrow money, either from the Government or in the open market, for carrying out large projects in connexion with water supply and drainage works.

§16. **District Board finance.**—The main source of the revenue of rural authorities is a tax or cess (called Provincial Rates) levied on the annual value of the land and collected with the land tax, though this may be and often is supplemented by taxes on companies and professional men, and by tolls on vehicles. Recently there has been a tendency in some provinces either to increase the general rate, or, as in Madras, to add new cesses for specific local purposes such as elementary education. The rates of the cesses are left to the discretion of the local bodies, subject to certain maxima and minima laid down by the Provincial Legislatures. The limits vary from 6¼% to 12½%. A very large proportion of the revenue of the rural Boards consists of subventions from Provincial Governments. These are given not only as grants-in-aid for particular services, but not infrequently in the form of capital sums for the provision of works of construction. Other sources of revenues are Civil Works and miscellaneous.

The main items of expenditure are Education, Civil Works, Sanitation, Hospitals, Debt, etc.

The total income of about Rs. 17 crores is divided among 1,098 Boards, which means that the rural District Boards are even weaker financially and have consequently shown less progress than the urban Municipalities.

§17. Inadequate resources of local bodies and their improvement.—The question of local finance has come into increased prominence since the transfer of local self-government to the Ministers (1921). Considering the devolution of powers that has taken place and the wide range of functions—including public health and education—assigned to Municipalities, District Boards and *panchayats*, the resources of these bodies at present are utterly inadequate. It is impossible for them to reach modern standards unless they have more money. Apart from the low taxable capacity of the people and their alleged unwillingness to tax themselves, another difficulty is that only a very small share of the taxation of land (which in other countries like England is the principal source of local finance) is allotted to local bodies. The Taxation Enquiry Committee has rightly pleaded for the standardization of land revenue at a low rate so as to leave more scope for local taxation. The same committee has also recommended (i) empowering Municipalities to tax advertisements; extending the scope of taxes on entertainment and betting; and giving local bodies a substantial share of the proceeds; (ii) empowering local bodies in selected areas to levy a fee for the registration of marriages; and (iii) supplementing the resources of local authorities by subsidies which ordinarily should be restricted to services of national importance and granted in such a way as to enable the Provincial Government effectively to enforce efficiency.

The Bombay Local Self-Government Committee (1940) endorse most of these recommendations and make further proposals (such as a tax on the transfers of immovable properties, taxes on marriages and adoptions and assignment of the entertainment tax, etc. for the benefit to municipalities) and of land revenue in the case of rural local bodies.

SUMMARY

Recent years have witnessed considerable *changes in the financial system of India.* The provinces have achieved greater financial independence, and new sources of revenue (other than Land Revenue), like Income-Tax and Customs, have come into prominence. The regime of customs duties may be said to have started from the year 1894. The customs duties were until recently (1924) for revenue purposes and were sometimes balanced by excise duties as, in the case of the cotton excise (abolished in 1926).

The period since the war of 1914-18 has been marked by a great increase in the revenue from *customs duties.* Since 1924 some of them have been imposed in furtherance of the policy of discriminate protection, and latterly as a result of the Ottawa Agreement of 1932 (replaced by the new Indo-British Trade Agreement of 1939), our tariff system has also come under the influence of the policy of Imperial Preference and has become a two-decker one in consequence.

The only important *export duties* are those on jute and jute manufactures, and on rice.

The *income-tax* was first levied on a permanent basis in 1886. Its history since that date has been characterized by increases in the rate, introduction of progression, and imposition of a super-tax and excess profits tax which however has now been abolished.

The *salt tax* yields about Rs. 8 crores per year. Being a tax on a necessary of life, it is unpopular. It should therefore be reduced, if not altogether abolished.

Opium is now quite negligible as a source of revenue. As a result of an agreement with China exports to that country as indeed to other countries have now been stopped. Internal consumption is also strictly regulated.

The principal *provincial heads* of revenue are Land Revenue, Excise, Stamps, Registration fees, and the new taxes levied since the introduction of Provincial Autonomy such as Sales, Employment and Immovable Property taxes.

The revenue from *excise* must diminish with the success of Government policy in putting down the evil of drink. For ensuring genuine and lasting success, however, the Government must proceed with courage and determination tempered with caution.

Since the beginning of the present century there has been a great increase of *public expenditure* in India, much of which is characterized by the critics of Government as wasteful and not in the interests of the nation. Criticism is directed particularly against the excessive growth of *military expenditure* during and since the war of 1914-18. The military budget, after being substantially reduced in the years before the war of 1939-45, has rapidly mounted since its commencement in September 1939. Reduction in military expenditure has been demanded on the ground that the burden presses much too heavily on the poverty-stricken people of India.

On the *civil side* the complaint is that administration is needlessly expensive and it is suggested that it is possible and desirable to cheapen it, e.g. by substituting Indian for European agency. It is essential to spend more money on the nation-building departments like education, agriculture and industries.

The *burden of taxation* in India is high considering the poverty of the people and the unproductive nature of a great deal of the public expenditure. Taxation is also unevenly distributed, and its incidence is unduly heavy on the poorer sections of the population. Since the war of 1914-18, and again since the commencement of the war of 1939-45, the injustice has been rectified to some extent by imposing additional taxation which falls largely on the richer sections and reducing taxes falling mainly on the poor.

Recent Indian finance has been characterized by heavy deficits, caused by the increase in public expenditure during the war of 1939-45, necessitating much additional taxation, direct and indirect.

Our *public debt* was in the beginning for unproductive purposes like war. Since 1867, however, the proportion of the productive debt has rapidly increased. Also internal borrowing is being favoured more and more in preference to loans raised abroad. The recent substantial reduction in the sterling debt of India by repatriating sterling loans is therefore to be welcomed.

Financial relations.—Before 1871 all financial power was centralized in the hands of the Central Government. Since then there has been a gradual process of devolution in favour of the provinces. The latest step in this development is that contemplated in the *Government of India Act* (1935). The arrangement as decided upon in the Act is intended to effect a fair distribution of revenues between the Federal Government and the units. There are certain taxes which only the *Federal Government* can levy, others which only the *units* can levy. In some cases the jurisdiction is concurrent. Certain taxes are controlled by one authority though the yield may be shared by both. In some cases the yield of a given tax may be allocated exclusively to one authority subject to a surcharge leviable for its own benefit by the other authority.

The Government of India Act (1935) left certain important details for subsequent investigation and decision. Accordingly the Secretary of State appointed a special expert, Sir Otto Niemeyer, to fix the terms of the financial settlement between the Central and Provincial Governments. His Report was accepted. Its main recommendations were as follows:

(i) Provincial autonomy to be introduced on 1 April 1937.

(ii) Cash subventions to be given to certain provinces, e.g. Orissa, North-West Frontier Province, and Sind, so that all the provinces should have adequate resources at the inauguration of the new Constitution.

(iii) Relief to be granted to certain provinces in the form of the cancellation of the net debt incurred prior to 1 April 1936.

(iv) Distribution of a further 12½% of the jute tax to the jute-growing provinces.

(v) Assignment to the provinces of half of the income-tax (subject to certain conditions) beginning from five years after the inauguration of provincial autonomy.

The Niemeyer Award may fairly claim to represent as equitable an arrangement as could be devised in the circumstances. Luckily for the provinces the process of the assignment of income-tax to them has already started, and the provinces have been receiving fairly substantial shares of income-tax in recent years.

The Partition necessitated reallocation of the income-tax and the jute export duty. This was done under the Deshmukh Award which came into effect on 1 April 1950 and which will remain in force for about two years at the end of which the whole question will be re-examined by the Finance Commission.

LOCAL FINANCE

Municipalities have to pay for conservancy and public works, water supply, drainage and education, and are empowered to levy a wide choice of taxes to raise the necessary money. Besides taxes on trade (such as octroi duties), on property, and on persons, they usually levy direct fees for services rendered, and issue licenses for purposes of regulation or revenue. There are 812 Municipalities in India but most of them have inadequate resources, and have to finance their undertakings by loans.

District Boards have similar responsibility for education, civil works and public health in rural areas, and their resources are smaller than those of Municipalities. Most of their income came from Government grants. Education is the most costly item for District Boards, water supply for Municipalities. As the resources of both are inadequate, the Taxation Enquiry Committee and the Bombay Local Self-Government Committee have recommended (i) the standardization of the land revenue at a low rate, (ii) giving Municipalities power to levy new taxes, and (iii) supplementary grants for services of national importance.

VIII

THE NATIONAL INCOME AND UNEMPLOYMENT

THE NATIONAL INCOME

§1. Estimates of the national income.—Estimates have been made from time to time of the national income of India. We might set out the chief among them showing the income per head in a tabular form as follows:

Estimates by	Relating to year	Income per head
		Rs a. p.
Dadabhai Naoroji ..	1870	20 0 0
Lord Curzon ..	1900	30 0 0
Wadia and Joshi ..	1913-14	44 5 6
Shah and Khambata ..	1921-2	67 0 0
Findlay Shirras ..	1922	116 0 0
Visvesvaraya ..	1922-3	82 0 0
V. K. R. V. Rao ..	1931-2	65 0 0

The differences in the estimates are due to a number of causes. First of all they relate to different periods, so that the difference in prices must be taken into account. Thus between 1913-14 and 1921-2 prices had risen by about 80%, so that Rs. 44-5-6 in 1913-14 would be equivalent to about Rs. 80 in 1921-2. Secondly, the area covered by the estimates is not always precisely the same. Thirdly, the methods of calculation are not uniform. Practice has varied with regard to items to be included and deductions to be made. We must further allow for the bias—pro-Government or anti-Government—of the inquirer. Besides the estimates on a national scale quoted above, there have been a number of intensive inquiries into the economic condition of certain selected regions, e.g. those carried out by Dr Mann in Bombay and by Dr Slater in Madras and the investigations in the Punjab conducted under the auspices of the Board of Economic Inquiry.

§2. **The poverty of India.**—Even the most optimistic of these inquiries—whether national or regional—only serve to emphasize the fact that the inhabitants of this country are beset with a poverty for which there is no parallel in modern times in the countries of western Europe. Comparison of India with some of the advanced nations of the modern world conveys the same dismal lesson. Before the war of 1939-45 the *per capita* income in Japan was about Rs. 271; in Germany, Rs. 634; in France, Rs. 636; in the United Kingdom, Rs. 1,092; in Canada, Rs. 1,268; in the U.S.A., Rs. 2,053.[1] However, while everybody must admit that there is appalling poverty in India, there is a silver lining to the cloud and there are on the whole good grounds for supposing that real if very slow amelioration in the condition of the people has been in progress in recent times and should be maintained when the country recovers from the serious setback due to the present world depression. The villager consumes more salt, more sugar, and more tobacco, and imports more luxuries and conveniences than he did a generation ago. He eats more food and has a better house to live in than his father. To a considerable extent brass and other metal vessels have taken the place of coarse earthenware. The *per capita* consumption of food and of cloth is increasing. The impression of gradual economic betterment which one obtains from facts like these and from the various estimates of the national dividend is strengthened by such admitted tendencies as the growing independence of spirit displayed by agricultural and industrial labour. However, although it is true that some advance has taken place, it is insignificant as compared with the progress achieved by some of the foremost western nations and reflected in decline of pauperism, decrease of death-rate, shortening of hours of labour, spread of education, increase in means of recreation, improvement in housing and sanitation, etc.

§3. **Causes of Indian poverty.**—The poverty of India is a highly complex phenomenon and the factors accounting for it are many and varied. A more vigorous development of the economic resources of the country and a more rapid spread of education and general enlightenment are plainly needed. The problem of Indian poverty is, as we have seen, implicit in the treatment of almost every topic of Indian economics and it is impossible to deal with it without opening up the whole field of economic and not a little of the political argument concerning present-day India.

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[1] Sir M. Visvesvaraya, *Planned Economy for India*, p. 27.

§4. **Defects of distribution and consumption.**—Not only is the aggregate of national wealth deplorably small in relation to the size of the population in India, but it is also very unevenly distributed. According to Shah and Khambata, about a third of the wealth of the country is enjoyed by about 5% of the population; about 35% is absorbed by about one-third of the population; while the remaining 30% or less is distributed among more than 60% of the population. It is a well-known economic maxim that uneven distribution makes for diminution of welfare and aggravation of poverty. This evil, however, is not so glaring in India as in the capitalistic countries of the west, and as between inadequate production and inequitable distribution, the former is by far the more serious drawback of Indian economy. Besides the size of income and the manner of its distribution, another important element in national welfare is the proper ordering of expenditure or consumption. All classes of people in India, as elsewhere, can be proved to be more or less guilty of ill-regulated expenditure due to the tyranny of custom and religious prejudice (e.g. expenses on marriages, funerals and the like) and the influence of ignorance. An outstanding example of defective consumption is furnished by the ill-balanced dietaries adopted by many of the people in India. The prevalent dietaries in most of the provinces in India have been largely controlled by local circumstances and determined by the kind of food raised on the spot, with the result that the staple food of large sections of people is lacking in important nutrient substances. For example rice, the staple food of people in Madras and Bengal, is fundamentally a poor diet, deficient in important organic salts and vitamins. The wheat- and meat-eating Sikhs, Pathans and Gurkhas have a much better physique than the rice-eating Bengalis and Madrasis. The addition of wheat, milk, butter and meat improves the rice-eater's diet, as in the case of the Maratha. The problem of malnutrition is distinct from the problem of poverty. An excessively low income is of course a fundamental difficulty. But another difficulty is the failure to make the best possible use of a given income. 'A dietary conducing to malnutrition may cost more than a well-balanced dietary which promotes health.'[1]

The present facilities of transport (in normal times) should help in remedying the deficiencies of diet in any particular province by the import of the needed food-stuffs from other provinces. But extensive propaganda based on authoritative investigations is necessary in order to make people desirous of changing unsatisfactory food habits. The subject of nutrition in relation to public health should find its rightful place in the curriculum of medical and other studies.

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[1] *Agricultural Commission Report*, pp. 494-5.

UNEMPLOYMENT

§5. **Different kinds of unemployment.**—The discussion of the poverty problem leads by a process of easy transition to that of unemployment, since the great poverty of the people is after all the fundamental cause of all unemployment.

We shall now proceed to consider the various forms which unemployment takes in India.

(i) The vast majority of the population of India is engaged in agriculture and we have already seen[1] that in agriculture, as at present organized in India, there is *seasonal unemployment* of greater or less duration in the year in most parts of the country, and the question of finding suitable supplementary industries for keeping the cultivator occupied during this period of enforced leisure has been discussed.

(ii) There is another species of unemployment to which India is subject from time to time. The partial or total failure of the monsoon may be regarded as a sort of lock-out declared by nature, and it may result in throwing thousands of people out of their normal employment on the land. This creates the problem of *famine relief*.

(iii) *Industrial unemployment* of the type now familiar in the west, of course also occurs in India for the same reasons as elsewhere. But since only a small proportion of the people is engaged in modern industries, this kind of unemployment does not loom so large in this country. Qualitatively the problem is much the same here as in the western countries. But quantitatively it is far less formidable. It will assume larger proportions and attract more attention with the growth of industrialization. However, industrial unemployment in India differs from the parallel phenomenon in the west not only in scale but also in the nature of the problem it creates for the State. When for any reason work cannot be obtained in the cities, most of the labourers return to their villages and remain there until industrial conditions improve and there is again a demand for their labour. To a large extent, the people concerned themselves solve their problem and no call is made on the Government for assistance.

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[1] See ch. iii, §15.

(iv) The rise and progress of modern industry in India and particularly the competition of machine-made goods from abroad have been often attended with *loss of occupation to cottage workers*, and in an earlier chapter we have indicated some methods of dealing with the situation which has thus arisen.[1]

(v) Latterly the question of *middle-class unemployment* has come into prominence and has excited much alarm and anxiety.

In this chapter we propose to concentrate attention on (i) rural unemployment due to failure of rains, i.e. famines, and (ii) middle-class unemployment.

§6. **History of famine relief.**—India has always been subject to famines and there is no evidence for supposing that they are more frequent now than they were before. In fact, owing to undeveloped communications and the consequent impossibility of bringing relief to the distressed areas, famines were far more calamitous in the pre-British period than at present. The present view as to the responsibility of the State in the matter of famine prevention and famine relief is itself a recent growth, dating roughly from 1865, the year of the Orissa famine which was responsible for heavy loss of life. As a result of an inquiry presided over by Sir John Campbell, the Government declared that its definite policy was to save life at any cost. In 1878 was introduced the scheme of the *Famine Insurance Grant*; by which a sum of Rs. 1½ crores was provided in the annual budget of the Government of India to be spent on direct relief if there was a famine, and on the construction of public works of a protective nature,[2] if the year was normal. The recommendations of the Famine Commission of 1880 supplied the foundation on which the present system of famine relief is based. Communications were extended by renewed activity in building railways under the new guarantee system.[3] The *principles of famine relief* (based on the recommendations of the Famine Commission, 1880) were clearly defined as (i) provision of work to the able-bodied at a wage sufficient to secure health but not ordinary comforts; (ii) gratuitous relief to the infirm in their own villages or in poor-houses; (iii) assistance to the land-owning classes in the form of *takkavi* loans; and (iv) suspension and remission of land revenue.

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[1] See ch. iv, §20.

[3] See ch. v, §2 (iii).

[2] See ch. iii, §8 (ii).

Famine codes embodying these principles were prepared for every province, and were suitably amended in the light of later experience. The amendments, influenced by the recommendations of the Famine Commission of 1901, were of fundamental importance. The Commission emphasized the need for 'moral strategy' or 'putting heart into the people', i.e. assisting the people by loans and other means as soon as danger is scented, by prompt and liberal grants of *takkavi*, early suspension of land revenue, and a policy of 'prudent boldness' with large and elastic plans of relief, constant watchfulness for signs of approaching calamity, and full enlistment of non-official help. The Commission further drew attention to the necessity of devising measures for tackling fodder famines and saving cattle, starting co-operative credit societies and extending State irrigation works of a protective character.[1] The amended Famine Codes embodying these principles have been found to work satisfactorily, so that famines may now be said to have been brought more effectively under administrative control than ever before in the history of India. One main cause why this has been possible is the great progress that has been made in the development of communications and transport. We have now no such thing as food famines, i.e. it is rarely that food is not available somewhere in the country. The problem is to transport it quickly to the affected areas, and this is now possible owing to the development of transport. But because of relative scarcity and the expenses of transport the prices of food-stuffs are higher than in normal years, while the people in the famine-stricken areas, having temporarily lost their employment on the land, have no money with which to buy the food. Modern famines, in other words, are *not food famines but money famines*. Famine relief therefore now consists mainly in providing work and paying wages for it, in order to enable those who seek relief to buy sufficient food.

Under the financial decentralization which followed the Reforms of 1919, each province was required to provide annually for its own famine insurance out of its revenues, and to pay the amount into the *Famine Insurance Fund*. As need arose, it was open to each of the provinces to spend the amount to its credit in the Famine Insurance Fund for (i) relief of famine; (ii) construction of protective works; or (iii) grant of loans to cultivators.

The constitution of the Insurance Fund was radically changed in the year 1928-9. Under the new regulations the fund ceased to be an insurance fund. It was called 'the Famine Relief Fund', and its primary object was to provide for expenditure on famine relief proper, the word 'famine' being held to cover famine due to drought or other natural calamities (e.g. an earthquake). Accordingly, the annual assignment from revenues as well as the balances in the Fund, till they exceeded a certain prescribed amount, were not expended save upon the relief of famine. The balances at the credit of the old Insurance Fund were transferred to the new Fund. The additions to the Fund during the year 1939-40 were Rs. 13·45 lakhs; the total withdrawals Rs. 24·29 lakhs. The closing balance in the Fund on 31 March 1940 stood at Rs. 3,07·67 lakhs.

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[1] See ch. iii, §10.

The Government of India Act (1935) contains no provision for the separate Famine Relief Fund. On 1 April 1937 the balances at the credit of the Fund were handed over to the provinces; and it has been left to Provincial Governments and their legislatures to take the measures hitherto prescribed for them.

§7. Famine relief organization.—We may here give a brief description of the relief organization built up by the Government in the course of the last seventy-five years.[1]

(i) *Standing preparations* are made on a large scale. Valuable information is gathered about climatic conditions, crops and prices, births and deaths, etc.; programmes of suitable relief works are kept ready and brought up to date; the country is mapped out into relief circles, and reserves of tools and other equipment are kept ready.

(ii) When rains fail, a *careful look-out* is kept *for danger signals* indicating the approach of distress, such as rise of prices, restlessness of people, and their aimless wandering, and increase in crime, especially of petty thefts.

(iii) The Government then declares its *general policy* as *based on moral strategy*. Meetings are called for explaining this policy to the people, non-officials are invited to help the Government; suspension of revenue is announced and loans for digging wells, etc., are made. Village inspection begins, and preliminary lists of helpless persons are prepared.

(iv) Then follows the *first stage* of actual relief. *Test works* are opened and, if considerable labour is attracted to them, they are converted into relief works.

(v) The *next stage* commences from December. *Central*

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[1] See *Imperial Gazetteer of India*, vol. III, pp. 477-81.

relief camps are organized and gratuitous relief is given to the infirm in the villages. Poor-houses are opened in towns, and village kitchens are run for the benefit of children. The distress reaches its climax in May, when there is fear of an outbreak of cholera.

(vi) The *last stage* begins with the advent of the rains. The large relief works are closed down and people are moved in batches to *smaller relief works* near their villages. Local gratuitous relief is extended, and liberal advances are made to cultivators for the purchase of cattle, ploughs and seed. When the principal autumn crop is ripe, the few remaining works are gradually closed down and gratuitous relief ceases. The famine is ordinarily at an end by the middle of October. All this time the medical staff is kept ready to deal with cholera and malaria—diseases which generally appear when the rains break out.

§8. **Middle-class unemployment.**—Middle-class unemployment has in recent years assumed alarming dimensions and attracted widespread public attention. Investigations through specially appointed committees were carried out between 1924 and 1928 in several provinces, like Bengal, Madras, Bombay and the Punjab, and in some of the Indian States like Travancore. The most recent committees were those appointed by the United Provinces Government under the chairmanship of Sir Tej Bahadur Sapru (1935) and by the Bihar Government (1937). The reports of all these committees show that middle-class unemployment is an all-India problem. The evil is a very serious one, whether one considers the sufferings of the unemployed young men themselves or the social and economic effects of 'the existence and steady increase of a sort of intellectual proletariat not without reasonable grievances. . . . So long as the great mass of the nation's intelligent manhood is driven, in ever-increasing numbers, along the same, often unfruitful course of study, which creates expectations that cannot be fulfilled and actually unfits those who pursue it from undertaking many useful operations necessary for the welfare of the country, any Government however it may be constituted, whether it be bureaucratic or popular, must find its work hampered by an unceasing stream of criticism and a natural demand for relief which cannot possibly be met.'

§9. **Causes and remedies.**—India, like the rest of the world, has been severely hit by the unprecedented severity of the present economic depression. Employment offered by the Government or by private agencies has consequently shrunk very greatly, while the supply of men seeking it has grown rapidly. Another cause of unemployment among the educated classes is inherent in our present system of education, which qualifies people almost exclusively for clerical occupations, and those who undergo education generally do so with a view to Government service or to admission to a few very much over-stocked professions such as law and medicine. The education that is imparted also fails to emphasize the idea of the dignity of labour. One result of this is that boys belonging to the agricultural and the artisan classes, instead of becoming more efficient in their ancestral occupations because of their education, come to look down upon it and prefer starving as fifth-rate clerks to earning a decent livelihood in their family occupations. This merely accentuates the prevailing unemployment among the educated classes. It must, however, be added that, while parents fail to display the necessary vision and foresight in choosing occupations for their boys, this is to some extent due to the absence of facilities for practical training—agricultural, technical, industrial or commercial.

The most important cause of middle-class unemployment is the very poor industrial development of the country and consequently the small number of careers open to our young men. The under-development of the economic resources of the country is at the basis of the poverty of the masses and, in the last analysis, dominates all species of unemployment. Everything that leads to the economic betterment of the country will therefore obviously be a remedy for unemployment. The rise in the general level of prosperity will, for example, increase the demand for the services of clerks, teachers, lawyers, doctors, salesmen, managers, insurance agents, etc. Any further extension of Government activity for the sake of bringing about an all-round betterment of the country will also mean more employment for the educated classes in the various departments of administration.

§10. **The Sapru (Unemployment) Committee.**—We may here refer to some of the more important recommendations of the Sapru Committee and classify them as follows: (i) those which aim at increasing the demand for educated men; (ii) those which aim at avoiding excess of supply; and (iii) those which aim at a proper adjustment of supply to demand (actual or potential).

(i) Municipalities and District Boards should be compelled to employ qualified engineers and supervisors for the purpose of maintaining roads and buildings in an efficient condition.

The Government might with benefit provide more employment for qualified medical men by extending the scope of public medical relief.

Municipalities and District Local Boards should be compelled to employ properly qualified medical officers for carrying out their duties in connexion with public health and sanitation.

The overcrowding of the legal profession may be remedied to some extent by the introduction of greater specialization of functions, e.g. some should specialize in drafting documents, others in arguing cases, etc.

Large-scale and small-scale industries should be stimulated so that they might absorb an increasing number of our young men.

Vigorous steps should be taken to introduce compulsory primary education, without which no substantial economic progress is possible. This would also mean an increased demand for teachers, and would so far remedy the existing unemployment.

(ii) The High School examination should have two kinds of certificates—one certifying completion of the course of secondary education and qualifying for the subordinate branches of Government service and also for admission to industrial, commercial and agricultural schools, and the other qualifying for admission to Arts and Science colleges.[1]

(iii) The facilities for practical training in the various technical educational institutions should be extended, and education in general should receive a more pronouncedly practical and, in the case of primary schools, a definitely rural, bias.

Medical practitioners should be encouraged, if necessary with the help of generous subsidies, to settle down in rural areas instead of congregating in the few big towns.

Steps should be taken to develop new professions like pharmacy, dentistry, accountancy, architecture, librarianship, insurance work, and journalism, and suitable training should be provided for qualifying for these careers.

An attempt should be made to induce agricultural graduates and diploma holders to make scientific farming a means of livelihood. The development of dairy farming would afford another possible avenue of employment for them.

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[1] In 1941 the Government of Bombay decided in favour of conversion of some of its high schools into agricultural, technical or commercial high schools with a view to providing alternative technical education which would facilitate employment in industrial cities like Bombay.

Steps should be taken to bring qualified educated men into touch with commercial houses for employment. Regional vocational guidance authorities should be created for this purpose.

The Government should spread broadcast information regarding possible careers and bring into existence suitable machinery for giving sound advice to parents regarding the aptitudes of their boys and the choice of a suitable career for them.

Secondary schools should provide much more diversified courses of study than at present, and in the universities greater stress should be laid on scientific and vocational education.

Appointment Boards should be created for university graduates as also for the products of the secondary schools. Appointment Boards have accordingly been established in some of the Provinces.

SUMMARY

NATIONAL INCOME

The extreme poverty of India is brought out clearly by the various estimates of the *national income* made from time to time and by a number of more limited regional inquiries carried out in the different provinces. However considering the position over the period since about 1870, there has undoubtedly been some progress, though it has been very slow, and quite insignificant when compared with the achievements of the advanced nations of the west. A discussion of the causes of Indian poverty must inevitably open up the whole field of Indian economics.

Besides low production, India also suffers from uneven distribution of wealth. The more pressing question of the moment, however, is how to increase the total production of wealth.

The effects of poverty are further aggravated by many defects of consumption due to the tyranny of custom and religious prejudices and to ignorance.

Consumption is found to err at present among other things as regards the selection of a proper health-giving diet. Many of the prevalent diets in India are seriously defective, and the question of changing the food habits of the people ought to engage the earnest attention of the Government and of the educational agencies in the country.

UNEMPLOYMENT

The problem of *industrial unemployment* of the modern type is growing in extent and seriousness. But it is not yet of the same order of importance as in the west.

Agriculture is the primary industry in India and its fortunes are dependent on the capricious monsoon. If the rains fail, this spells unemployment for large numbers of people who thus come face to face with the spectre of *famine*.

(There is of course *seasonal unemployment* for a part of the year even if the rainfall is normal.) The elaboration of effective machinery for coping with famines belongs to the last three-quarters of a century and is made possible by the modern development of transport and communications. Each locality need no longer depend entirely on the food-stuffs raised by itself. It can now draw upon the supplies available in other localities in the event of failure of local supplies. Famine has thus come to mean not absolute failure to obtain food at any cost, but comparative scarcity and high prices. Enough food is almost always available. The problem is to put people in the distressed areas in possession of sufficient purchasing power to obtain it.

Famine relief mainly consists in providing work and wages to those rendered temporarily helpless by the failure of the rains. Each province has a famine code of its own which lays down in detail the plan of action to be followed for coping with a threatened or actual famine. Every province was also required to provide in its annual budget a certain fixed sum (depending upon its liability to famines, etc.) which was in the first instance paid into a *Famine Insurance Fund* upon which it was then entitled to draw, as occasion arose, for preventing or relieving famines. In 1928-9, the old Famine Insurance Fund was replaced by the *Famine Relief Fund*, of which the main object was to provide for expenditure on famine relief proper. The Government of India Act (1935) contains no separate provision for a Famine Relief Fund as such, discretion being given to the Provincial Governments in this matter. *The principles of Government famine policy* are: (i) as far as possible to make people help themselves, encouraged by Government assistance in the form of loans, suspension of land revenue, etc.; (ii) to limit relief to the minimum necessary for securing health; (iii) to make relief conditional on work in the case of the able-bodied and to utilize as fully as possible the services of non-officials; (iv) constant preparedness, eternal vigilance, and prompt and definite action as soon as danger is scented. The actual details of the programme of famine relief are most elaborate and represent the fruit of long experience and much thought.

The problem of *middle-class unemployment* has excited much attention and anxiety in recent years. Various committees appointed during the last few years by the provincial Governments have deliberated and made recommendations for dealing with the evil.

The causes of middle-class unemployment are a defective system of education which is too academic and too much out of touch with real facts and needs, and the under-development of the industrial life of the country, limiting the openings available to the educated classes. The latest of the provincial committees on this question is the Sapru Committee. Their recommendations cover a wide range and include many suggestions—some of which are intended to be mere palliatives, while others are radical and contemplate far-reaching changes. They envisage a great extension of Government activity and a thorough overhauling of the educational system of the country. These recommendations can all be placed under one or other of the following three categories: (i) those aiming at an increase of demand for educated men; (ii) those aiming at avoiding an excess of supply; and (iii) those aiming at a more effective adjustment of supply to demand (actual or prospective).

APPENDIX I

PARTITION AND AFTER[1]

§1. **Population.**—The following table, based on the figures of the 1941 census, shows the area, in thousands of square miles, and population, in millions, of the two Dominions and of the States outside them:

	Population (millions)	Per cent of total	Area (1000 sq. mi.)	Per cent of total area	Density
INDIAN UNION					
Provinces ..	230	57.8	627	40.1	368
States ..	68	17.6	418	26.5	167
Total ..	298	75.4	1,045	66.6	285
PAKISTAN					
Provinces ..	66	16.9	236	14.9	280
States ..	5	2.6	129	8.1	37
Total ..	71	19.5	365	23.0	195
Hyderabad ..	16	4.1	82	5.2	198
Kashmir ..	4	1.0	82	5.2	49
Grand total ..	389	100	1,574	100	247

Nearly 64 per cent of the total Pakistan population is concentrated in Eastern Pakistan, which accounts for only 25 per cent of the total area of Pakistan. The density of population in Eastern Pakistan is as high as 718 as against 136 in Western Pakistan.

The percentage of urban population is 14 in India and 8 in Pakistan.

§2. **Agriculture.**—The following figures relating to the year 1938-9 show that nearly half of the total area is uncultivated in both Dominions, the proportion of cultivated land being a little higher in India than in Pakistan. Per capita sown area in India is 0.75 acre and in Pakistan 0.64 acre. 15 per cent of the total area is under forest in India as against 5 per cent in Pakistan. Of the uncultivated area Pakistan has a larger proportion than India not available for cultivation.

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[1] This appendix is largely based on Professor C. N. Vakil's timely and useful publication, *Economic Consequences of the Partition*, second edition.

Classification of area (in million acres)	Indian Union		Pakistan		Hyderbad	Kashmir	Total
	area	%	area	%	area	area	area
Net sown ..	204	42	43	37	27	2	277
Current fallow ..	47	9	11	9	3	0.3	61
Total cultivated ..	251	51	54	46	30	2.3	338
Forests ..	74	15	5	5	6	2	87
Not available for cultivation ..	80	16	30	26	10	3	123
Other uncultivated.	86	18	26	23	2	1	115
Total uncultivated.	240	49	61	54	18	6	325
Grand Total ..	491	100	115	100	48	8.3	663

251 million acres or 18 per cent of the cultivated area is under irrigation in India, while 54 million acres or 36 per cent of the cultivated area is under irrigation in Pakistan. Most of the irrigation works are located in Pakistan.

An area equal to 183.6 million acres or 78 per cent in India and 37.7 million acres or 77 per cent in Pakistan is under food crops. Per capita acreage under food crops is 0.61 in India and 0.54 in Pakistan. But owing to irrigation facilities, the yield of crops per acre is higher in Pakistan with greater scope for reaping more than one crop in the year. Pakistan thus enjoys a surplus, while India has a deficit of from 3 to 5 million tons of food-grains.

India has to import cotton and jute from Pakistan. On the other hand groundnuts, coffee and tea are entirely Indian products for which Pakistan is dependent on India.

The position of Pakistan, in respect of milk is more favourable than that of India. Pakistan also has a more abundant supply of hides.

§3. **Minerals.**—It is needless to point out that annual production in India is at present far superior to that of Pakistan in respect of minerals.

Mineral	India	Pakistan
Coal (lakh tons)	248	3
Iron (lakh tons)	23	—
Copper (lakh tons) ..	3·3	—
Manganese (lakh tons) ..	3·7	—
Bauxite (tons)	12,135	—
Petroleum (million gallons) ..	66	21
Mica (cwts)	139,000	—
Chromite (thousand tons) ..	21	19
Gypsum (thousand tons) ..	26	58

§4. **Industry and Trade.**—Dislocation of the industrial structure may be said to be one of the major evil consequences of partition. Artisans and skilled workers who were mostly Muslims migrated to Pakistan leaving the factories in East Punjab almost without labour. Hindu capitalists fled to India leaving factories in West Pakistan without managerial skill. While cotton and jute are grown mostly in Pakistan, the cotton and jute mills are mostly located in India.

An idea of the distribution of various industries can be had from the table given below relating to 1942:

Industries	India	Pakistan
Cotton mills	357	15
Jute mills	111	—
Sugar mills	176	15
Iron and steel	36	—
Cement factories	57	8
Paper mills	19	—
Glass factories	112	5

The total number of cotton mills in 1943-4 was 410, out of which only 15 were located in Pakistan. The textile and jute mills in India largely depend upon Pakistan for their raw material.

India's share of the industrial establishments in undivided India is 86 per cent and of persons employed in industries more than 90 per cent are to be found in India. Pakistan lacks many major industries, and in average size those she has are inferior to India's. There is also much greater diversity of industrial development in the Indian Union than in Pakistan.

Though Pakistan has a few cement factories, they are dependent on India for coal and gunny-bags and Pakistan's sugar factories have not developed *pari passu* with the area under sugar-cane.

The most serious drawback of Pakistan's industrial structure is the total absence of iron and steel factories.

Pakistan is more preponderantly agricultural than the Indian Union. While undivided India had a monopoly of the export trade in raw jute, the Indian Union is now the world's heaviest importer of that commodity which has to come to her from Pakistan. Similarly the Indian Union has now to import about one million bales of cotton (mostly medium- and long-staple) from Pakistan which includes the most important cotton-producing areas of undivided India. The Indian Union has an unfavourable balance of trade with Pakistan as well as with the outside world. One of the difficult problems for the Indian Union, and to a lesser extent for Pakistan, is that of bridging the gap between exports and imports by an increase in the former and a decrease in the latter or both.

§5. **Transport.**—(i) *Railways.* The total capital at charge of the Indian railways is Rs. 702 crores as against Rs. 136 crores of the Pakistan railways. Of the total route mileage of undivided India, 77 per cent is in the Indian Union.

Imports of spare parts from the United Kingdom and the manufacture of some of them in our own ordnance factories, the reduction of delay in the turn-round of wagons and engines, and drastic measures to check ticketless travel have greatly helped to improve the position of railways in India.

(ii) *Shipping.* Undivided India had only 150,000 tons of shipping which amounted to 0.24 per cent of the world total. Out of this the share of Pakistan amounts to not more than 40,000 tons.

(iii) *Roads.* Out of a total—metalled and unmetalled—mileage of 315,000, India has 265,000 and Pakistan 50,000 miles of roads.

§6. **Currency and Exchange.**—The following were the main provisions of the Pakistan Monetary System and Reserve Bank Order, 1947.

(i) Indian notes were to continue to be legal tender in Pakistan till 30 September 1948.

(ii) On 30 September 1948, the Reserve Bank of India was to retire as a note-issuing authority for Pakistan. Since that date

Pakistan has had unfettered authority to make its own currency arrangements.

(iii) After 1 April 1948, the Reserve Bank might issue 'Pakistan notes'.

(iv) Assets equal in value to Pakistan notes were to be transferred by the Issue Department of the Reserve Bank of India to the Government of Pakistan soon after the 30 September 1948.

(v) Pakistan was to accept Indian notes from the Reserve Bank of India in certain circumstances until 1 October 1949, but they were to be replaced by Pakistan notes as and when required.

(vi) For one year after the issue of Pakistan coins the Indian rupee and subsidiary coins were to remain legal tender in Pakistan.

Accordingly Pakistan notes and Pakistan currency have been issued from the dates specified.

§7. **Banking.**—The number of banking concerns in the two Dominions are given in the table below:

	India	Pakistan
SCHEDULED BANKS:		
Head Offices	85	13
Branch Offices	2,428	620
Total	2,513	633
NON-SCHEDULED BANKS:		
Head Offices	462	157
Branch Offices	1,175	411
Total	1,637	568
Grand Total	4,150	1,201

Pakistan's share of banks was in proportion to population. But after the Partition many banks and indigenous bankers migrated from Pakistan to India. As might be expected, the result has been a considerable decline of banking business in Pakistan. Bank advances and bills discounted have declined and time-deposits have dwindled from about Rs. 39 crores to about Rs. 18 crores. The wholesale flight of Hindu capitalists with their funds and valuables from Pakistan naturally aggravated the situation.

The West Punjab Government floated a Finance Corporation with a capital of Rs. 1 crore mainly to finance the cotton and wheat trade. Before the Partition this finance was provided by Hindu capitalists.

As mentioned in the Pakistan Monetary System and Reserve Bank Order, 1947, a Central Pakistan Bank, called 'The State Bank of Pakistan', has been instituted since 1 July 1948 to manage the paper-currency, public debt and exchange of the Dominion. The structure of the Bank is almost the same as that of the Reserve Bank of India.

§8. **Public Finance.**—Estimates of central revenues of both the Dominions are given below in lakhs of rupees, based on figures for 1944-5:

Heads of Revenue	Share of India	Share of Pakistan	Total
1. Customs	29,32	8,97	38,29
2. Central excise duties	32,87	5,27	38,14
3. Corporation tax and taxes on income:			
Ordinary	52,95	4,43	57,38
Surcharge	32,73	2,84	35,57
4. Business profits tax	11,00	1,00	12,00
5. Civil administration	1,91	57	2,48
6. Currency and mint	9,60	2,86	12,46
7. Civil works	59	18	77
8. Interest	1,37	41	1,78
9. Opium	1,04	—	1,04
10. Receipts from States	46	14	60
11. Receipts in connexion with war ..	14,32	4,28	18,60
12. Net receipts from Posts and Telegraphs	7,89	2,36	10,25
13. Net receipts from Railways ..	24,64	7,36	32,00
14. Deduct share of income-tax distributed to provinces	—21,25	—5,31	—26,56
Totals	200,44	35,29	235,63

Partition has brought with it an enormous increase of expenditure for both the Dominions. For the suppression of communal riots and maintaining law and order in general it has become necessary to strengthen the defence and police services.

Another incidental item of heavy expenditure is in connexion with the relief and rehabilitation of refugees. This is likely to continue for years to come.

One of the results of widespread disturbances was incalculable damage to food crops which greatly worsened the food situation in the country. The expenditure on food subsidies has consequently risen steeply.

The extra burden, mainly due to an increase of unproductive expenditure, besides aggravating inflationary tendencies, has necessitated the postponement of many nation-building schemes that had been projected.

Payment of overseas pensions and interest on pre-partition loans amounting to about Rs. 68.5 crores a year is to be the sole responsibility of the Indian Dominion for a few years to come.

§9. **The division of assets and liabilities.**—A financial agreement, laying down broad principles for the distribution of assets and liabilities between the two Dominions, was signed on 12 December 1947.

On 1 March 1947, the amount of interest-yielding assets was Rs. 1,000 crores, the uncovered debt, Rs. 867 crores, and cash and securities held on the Treasury Account, Rs. 514 crores.

The division under the agreement is approximately as follows:

	India (Rs. crores)	Pakistan (Rs. crores)
Interest-yielding assets	835	165
Cash balance	325	75

Of the debt of Rs. 867 crores, Pakistan's share comes to 17.5 per cent. One-third of the military stores went to Pakistan which was also granted an advance of Rs. 6 crores to enable it to work its ordnance factories.

The interest on securities both in India and in Pakistan will be met by the Indian Government alone for some time, after which Pakistan will be required to pay its own share. It is to discharge its indebtedness to India by annual payments extending over a period of 50 years, beginning from the fifth year of partition. India's liability to holders of securities in Pakistan will be about Rs. 7 crores.

APPENDIX II

The States and the territories of India

PART A

Names of States	*Names of corresponding Provinces*
1. Assam	Assam
2. Bihar	Bihar
3. Bombay	Bombay
4. Madhya Pradesh	The Central Provinces and Berar
5. Madras	Madras
6. Orissa	Orissa
7. Punjab	East Punjab
8. Uttar Pradesh	The United Provinces
9. West Bengal	West Bengal

PART B

Names of States

1. Hyderabad	Acceded
2. Jammu and Kashmir	”
3. Madhya Bharat, Indore, Gwalior, Bhopal	”
4. Patiala and East Punjab States Union	”
5. Rajasthan—Jodhpur, Jaipur, Jailsalmer, Bikaner, Udaipur	”
6. Saurashtra—Jamnagar, Rajkot, Junagad	”
7. Travancore-Cochin—Kerala Union	”
8. Mysore	”
9. Vindhya Pradesh—Rewa	”

PART C

1. Ajmer
2. Bhopal
3. Bilaspur
4. Cooch-Behar
5. Coorg
6. Delhi
7. Himachal Pradesh
8. Cutch
9. Manipur
10. Tripura.

PART D

The Andaman and Nicobar Islands.

TYPICAL QUESTIONS

I

RESOURCES AND POPULATION

1. Consider India's advantages and disadvantages in respect of geographical location.

2. Draw a sketch map of India showing the principal harbours and rivers.

3. Describe the principal natural regions of India and emphasize their characteristic features.

4. Show the vital importance of rainfall to economic life in India. Briefly describe the course of the monsoons in India.

5. Draw a map of India to indicate the distribution of the rainfall in the different parts of the country.

6. Give a classification of the soils of India, and mention their chief products.

7. Describe the principal minerals mined in India and indicate their distribution by means of a sketch map.

8. Indicate the economic potentialities of forests in India. Give a short description of forest administration in India.

9. Explain the part played by the vegetable and animal resources in the national economy of India.

10. What are the principal sources of power available in India? Consider in this connexion the possibilities of hydro-electric development.

11. What is the average density of population in India? What inferences, if any, can you draw from average density with regard to the economic condition of the Indian people?

12. What are the factors governing density of population in the different parts of India? Illustrate your answer by means of a sketch map.

13. Give the principal statistics bearing on the occupational distribution of population in India, and comment on them.

14. Account for the fact that barely 11% of the Indian population lives in towns. How would you bring about a more even distribution of the population between town and country?

15. The Indian birth-rate is one of the highest in the world. What are the economic consequences of this fact?

16. 'The Indian birth-rate is high, but so also is the death-rate. Therefore there can be no question of over-population in India.' Do you think this is a valid line of argument?

17. Consider the remedies for over-population in India under the two headings (i) deliberate restriction of numbers; (ii) indirect remedies.

18. Briefly indicate the main features and economic effects of (i) the caste system; (ii) the joint-family system; and (iii) the laws of inheritance and succession in India.

19. Trace the influence of western individualism on the characteristic social institutions in India.

20. Is there any connexion between 'Indian spirituality' and the economic backwardness of India?

21. Examine the influence of social and religious institutions on economic life in India.

II

ECONOMIC TRANSITION IN INDIA

1. What is meant by saying that India is passing through a stage of economic transition?

2. Compare the economic transition in India with the Industrial Revolution in England.

3. In what respects does the old economic order differ from the new in India?

4. Describe the main features of the social and economic organization of the old village community in India.

5. How has the economic transition affected the Indian village?

6. Give a short account of the old village crafts and indicate their present position.

7. Indicate the transition in Indian agriculture and show how it has been commercialized.

8. Trace the progress of ruralization in India and indicate the main causes governing it.

9. 'In the past India was both a great industrial as well as a great agricultural country.' Comment.

10. Account for the decay of the old indigenous industries of India.

11. Review the course of the transition in Indian industries, indicating the progress made by organized industries of the western type. (See also ch. iv.)

III

AGRICULTURE

1. Discuss the importance of agriculture as the chief national occupation in India.

2. What are the principal staple products of Indian agriculture?

3. Draw a crop map of India and account for the specialization of the several regions in the different crops.

4. Do you find any legitimate cause for alarm in the tendency for the non-food crops to encroach on the food crops in India?

5. Give a brief account of the sugar industry in India.

6. Examine the part played by irrigation in India and show how it is an important factor in India's rural economy.

7. What are the different forms of irrigation prevalent in India and what do you consider to be their relative importance?

8. Give a brief description of the Canal Colonies in the Punjab.

9. Review the irrigation policy of the Government and mention some of the recent major irrigation works.

10. Explain the distinction between productive and unproductive irrigation works, and indicate the objects of each of them.

11. What are the causes of the low agricultural yield in India? What measures would you adopt to bring about an improvement?

12. 'One of the greatest handicaps of Indian agriculture is the endless subdivision and fragmentation of land.' Comment.

13. Show how consolidation of holdings has been effected in the Punjab and indicate its benefits.

14. What are the strong points and the special weaknesses of the Indian cultivator? What are the directions in which improvement is to be sought?

15. Describe the methods followed and the implements used by the Indian cultivator. What improvements would you suggest?

16. Explain the live-stock situation in the rural areas and show how the quality of cattle could be improved.

17. Consider the problem of subsidiary industries in Indian rural economy.

18. Discuss the uses and limitations of hand-spinning as a subsidiary rural industry in India.

19. Examine the question of the marketing of agricultural produce in India.

20. What are the important general causes of rural indebtedness in India?

21. Describe the money-lender and his system and account for the high interest rates charged by him.

22. What measures have been taken by the State to safeguard the interests of the agriculturist borrower in the different provinces?

23. What steps have been taken so far for remedying the evil of rural indebtedness in India? Have you any suggestions to offer in this connexion?

24. Trace the progress of the co-operative movement in India between 1904 and 1912.

25. What are the principal developments that have taken place since 1912 affecting the co-operative movement in India?

26. How far has co-operation helped the agriculturist to improve his economic position?

27. Mention the principal forms of non-agricultural co-operation in India and emphasize its value to cottage industries. (See also ch. iv.)

28. Give a reasoned estimate of the co-operative movement in India.

29. How would you solve the problem of long-term rural finance in India?

30. Give a brief account of Land Mortgage Banks established in India. How are these banks helped by the State?

31. In what different ways has the State come to the aid of agriculture in India?

32. Trace the evolution of the agricultural departments in the provinces and describe their functions.

33. Write a short note on the Imperial Council of Agricultural Research.

34. What are the principal items of rural uplift and how is it to be brought about? What do you know of the Gurgaon experiment?

35. Indicate the effects of the war of 1939-45 on Indian agriculture and explain the need for the 'Grow More Food' campaign.

36. Give a short history of Land Revenue in the pre-British period and explain the main changes effected during the British period.

37. What is a Land Revenue Settlement? What are the main systems of land revenue settlement prevalent in India?

38. Consider the relative merits of the zamindari and the ryotwari systems.

39. Why is it that Permanent Settlement has comparatively few advocates at present? What are the recommendations of the Floud Commission regarding its future?

40. Examine the basis of assessment under the different land revenue systems in India.

41. Write notes on: (i) the question of land ownership in India; (ii) land revenue: a tax or rent? ; (iii) legislative control over land revenue; and (iv) the proper scale of land revenue assessment in India.

42. How far does the Ricardian theory of rent apply to the land revenue in India?

IV

INDUSTRIAL DEVELOPMENT

1. Examine the benefits which will follow in the wake of industrial development in India.

2. Account for the industrial backwardness of India and review the industrial policy of the State.

3. Give a brief account of the events which led to the adoption of the policy of discriminate protection in India.

4. Describe the functions of the Tariff Board.

5. Emphasize the value of technical and industrial education in India.

6. Describe the functions performed by the provincial Departments of Industries.

7. How is Government patronage extended to Indian industries?

8. Draw an industrial map of India and account for the localization of the principal manufacturing industries.

9. Give a brief account of the cotton and jute mill industries and bring out their strong and weak points.

10. Indicate the effects of the war of 1939-45 on India with special reference to the cotton and jute-mill industries.

11. Give a short history of the iron and steel industry and indicate its present position.

12. Write brief notes on the following Indian industries (i) the tanning industry, (ii) the chemical industries and (iii) paper-making.

13. Account for the survival of cottage industries in India. Show how the war of 1939-45 has given a stimulus to them.

14. Describe the principal cottage industries of India and indicate the difficulties experienced by them.

15. Give a brief account of the Indian hand-loom industry and discuss its present position.

16. What is the present position and the future prospects of the sericultural industry?

17. Describe the various methods of helping cottage industries. What measures have recently been adopted by the Government of India in this behalf?

18. Summarize the recommendations of the Bombay Economic and Industrial Survey Committee for the grant of aid to cottage industries.

19. Indicate the peculiarities of the factory labourer in India, and compare his position with that of the western worker.

20. How far in your opinion is the complaint regarding scarcity of industrial labour in India justified?

21. Review the labour legislation passed in India, and clearly show the nature of the protection afforded to the worker.

22. Write brief notes on (i) industrial housing, and (ii) welfare work in India.

23. Give a brief account of the Trade Union movement in India and indicate the difficulties in its way. What is the legal position of a Trade Union in India?

24. To what causes do you attribute the relative inefficiency of the Indian industrial worker as compared with the western labourer?

25. What provision has been made to bring about the settlement of industrial disputes in India?

26. Show how industrial labour has been affected during the war of 1939-45.

V

TRANSPORT AND TRADE

1. Give a brief account of the state of communications in India before the advent of railways.

2. Give a brief history of railway construction in India, showing the changes in the policy of the State from time to time.

3. What were the principal recommendations of the Acworth Committee and how far were they accepted?

4. On what grounds is the State management of railways in India advocated?

5. Review the history of Indian railways since the separation of railway finance from general finance in 1925.

6. Examine the economic effects of railways in India and emphasize the need for further development.

7. Give a short history of roads in India and indicate the main features of her existing road system.

8. What is the importance of road development in India? What measures have recently been taken to expedite it?

9. Give an idea of the rail versus road controversy. Give your own conclusions on this controversy.

10. Discuss the present position and the future prospects of waterways in India.

11. What has been done so far and what more could be done for the encouragement of shipping and shipbuilding in India?

12. Give a brief history of air transport in India with special reference to the war of 1939-45.

13. Give a brief account of the development of India's foreign trade.

14. How does India's foreign trade at present differ from her foreign trade in the pre-British days?

15. Indicate the effects (i) of the World War (1914-18) and (ii) of the economic depression (1929-33) on India's foreign trade.

16. Show how the war of 1939-45 has affected India's foreign trade.

17. What are the main characteristics of India's foreign trade?

18. Indicate the principal articles of (i) the import and (ii) the export trade of India, and show their relative importance.

19. Review the changes in the direction of India's foreign trade between 1913-14 and 1940-1, bringing out the effect of the war of 1939-45.

20. Discuss the relative position held by the United Kingdom and other countries in the foreign trade of India.

21. Write brief notes on (i) the re-export trade of India, (ii) the land-frontier trade and (iii) commercial intelligence.

22. Explain why India has normally a favourable balance of trade. Indicate the changes in her balance during recent years.

23. What are Home charges? Explain and criticize the 'drain' theory.

24. Give a short account of (i) the coasting trade and (ii) the inland trade of India.

25. Mention the principal trade centres of India.

VI

INDIAN CURRENCY, PRICES AND BANKING

1. Give a brief history of the Silver Standard in India during the last century. Why was it abandoned in 1893?

2. Examine the principal features and the mechanism of the Gold-Exchange Standard before 1914. How was it upset during the war period (1914-19)?

3. What are Reverse Councils and Council Bills? What purpose do they serve?

4. Explain the scheme of the Gold Bullion Standard as recommended by the Hilton-Young Commission. How far was it given effect to by the currency legislation of March, 1927?

5. How and why was the rupee linked to sterling at *1s. 6d.* in September 1931?

6. What do you understand by the ratio controversy?

7. Discuss the main issues raised by: (i) linking of the rupee to sterling and (ii) export of gold. Do you favour the prohibition or regulation of gold exports?

8. How was the Gold Standard Reserve established? What were its main functions?

9. What is the present monetary standard of India? By what authority and how is it administered?

10. Describe the Paper Currency System in India before the war of 1914-18. How was it affected by that war?

11. Give a brief history of the Indian Paper Currency Reserve.

12. Indicate the existing arrangements for the issue and regulation of paper currency. In what respects do these constitute an improvement on the earlier system?

13. Indicate the effects of the war of 1939-45 on Indian currency.

14. Review briefly the movements of Indian prices before the war of 1914-18.

15. Why did prices rise in India during the war of 1914-18? How did this rise affect the country?

16. Illustrate the movement of prices during the war of 1939-45 and show how it has affected various sections of the community.

17. Account for the slump in prices during the recent years of economic depression. How has it affected the Indian agriculturist and other classes?

18. Describe the principal constituents of the Indian money market.

19. Give a short history of indigenous banking in India and examine the functions performed by the indigenous banker today.

20. Suggest measures for strengthening the indigenous banking system.

21. Give a brief review of joint-stock banking in India.

22. Give a short account of the establishment of the Reserve Bank of India. What advantages is it expected to confer on the country?

23. Describe the constitution and functions of the Reserve Bank. How is it managed?

24. Show how the Reserve Bank can control other banks and make its credit policy effective.

25. In what ways can the Reserve Bank assist in the financing of Indian agriculture?

26. What are the duties of the Reserve Bank as bankers to the Government?

27. What are the functions of the Imperial Bank of India? How is it related to the Reserve Bank?

28. Describe the business transacted by the Exchange Banks in India.

29. What steps would you take to increase the share of Indians in the financing of the foreign trade of India?

30. Examine the functions performed by the Joint-Stock Banks in India. Mention the names of the leading Joint-Stock Banks in the country.

31. Discuss the causes of bank failures in India. What can be done to prevent such failures?

32. Give a brief account of the Indian Postal Savings Banks. What purpose do they fulfil?

33. Why are industrial banks necessary in India? Show how they should be organized.

34. Account for the hoarding habit in India and suggest means of fighting it.

35. Examine the effects of the war of 1939-45 on Indian banking.

VII

FINANCE

1. Indicate the main characteristics of Indian finance.

2. State and discuss the main heads of revenue in the Central Budget.

3. Give a brief history of the customs tariff in India and indicate the main changes since 1914.

4. (i) How is the income-tax graduated in India?
   (ii) What are the justification for and objections to the salt tax?

5. Write a brief note on the principal heads of revenue and expenditure in the budget of a province. Is the provincial revenue adequate for provincial needs?

6. Write brief notes on: (i) excise revenue and policy (ii) new taxes under Provincial Autonomy and (iii) additional taxation during the war of 1939-45.

7. What are the criticisms to which public expenditure in India is usually subjected?

8. What is meant by the 'burden of taxation'? Is it evenly distributed in India?

9. How did Indian finance fare during the recent years of depression?

10. Give a brief account of the public debt in India.

11. Comment on the distribution of the public debt as between (i) England and India with special reference to the recent repatriation of sterling; and (ii) productive and unproductive loans.

12. Give a short history of the financial relations between the Central and Provincial Governments.

13. What was the Meston Award? Why was it so unpopular?

14. Give a short account of Indian finance under the new Federal constitution.

15. What do you know of the Niemeyer financial settlement? How has it worked since the inauguration of Provincial Autonomy?

16. What are the principal sources of income of a Municipality?

17. Enumerate the items on which municipal funds are expended.

18. What are the chief sources of revenue and expenditure of District and Local Boards in British India?

19. Comment on the poverty of local bodies in India. How would you strengthen their resources?

VIII

NATIONAL INCOME AND UNEMPLOYMENT

1. Mention the principal estimates of the national income of India.

2. What are the main general causes of Indian poverty? How has it affected the standard of living and efficiency?

3. Indicate the relation between diet and efficiency in the various provinces of India.

4. Distinguish between the various forms of unemployment in India.

5. Compare unemployment among industrial workers in India with that in western countries.

6. What are the causes of middle-class unemployment in India? What remedies would you adopt?

7. Examine the recommendations of the United Provinces (Sapru) Unemployment Enquiry Committee.

8. What are the causes of famines in India? What measures have been adopted for the prevention of famines?

9. Give a brief history of famine relief in India.

10. Describe the principal features of famine relief organization in India.

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